

Ben Gordon Chief executive



The group is well placed as it enters the new financial year, benefiting from the growing International platform, resilient multi-channel UK business, strong cash flow and debt free balance sheet.

Mothercare plc is the proud owner of two iconic brands synonymous with parenting; Mothercare and the Early Learning Centre. It also owns 50 per cent of the internet social networking site for mothers, Gurgle.com.

The Mothercare brand is an indispensable part of the process of parenting. The Mothercare brand has global appeal and reach providing a 'one stop shop' shopping environment in-store in 51 countries which, allied to its worldwide internet and catalogue business, provides the widest range of products for mothers-to-be and children up to eight years old with maternity and children's clothing, accessories, furniture, home furnishings, feeding, bathing, travel equipment and toys.

Mothercare prides itself in being a specialist retailer, providing products that are safe, innovative and relevant to parents faced with the ever changing demands of bringing up children and helping them to meet the needs and aspirations of their children, worldwide.

The Early Learning Centre also has a strong brand heritage. Originally founded as a mail order business providing toys and books with educational content, it extended its reach into stores both in the United Kingdom and latterly overseas. It too has a multi-channel approach offering customers the choice to shop in-store, on the net or through the seasonal catalogues. Since acquisition by the group in June 2007, its international activities have been considerably extended. The Early Learning Centre brand provides eight major categories of toys and games primarily from birth to six years old.

Both Mothercare and the Early Learning Centre source products from around the world. The group co-ordinates the sourcing of its products through three principal sourcing offices, one each in Shanghai, Hong Kong and Bangalore. These offices are the conduit for innovative and exclusive product development. Product sourced from our key markets is then consolidated and shipped to our stores around the world via a dedicated supply chain designed to be both cost and environmentally efficient.

Finally, Gurgle.com is our social networking site providing support and a wealth of information to registered users on all aspects of parenting as well as giving new mothers the chance of sharing experiences.

Growing two world class brands

Our aim is to build the Mothercare group into the world's leading specialist retailer of parenting and children's products. We are nurturing our two world class brands.

Two world class brands in **51** countries



ELC plastic watering can
£4.00



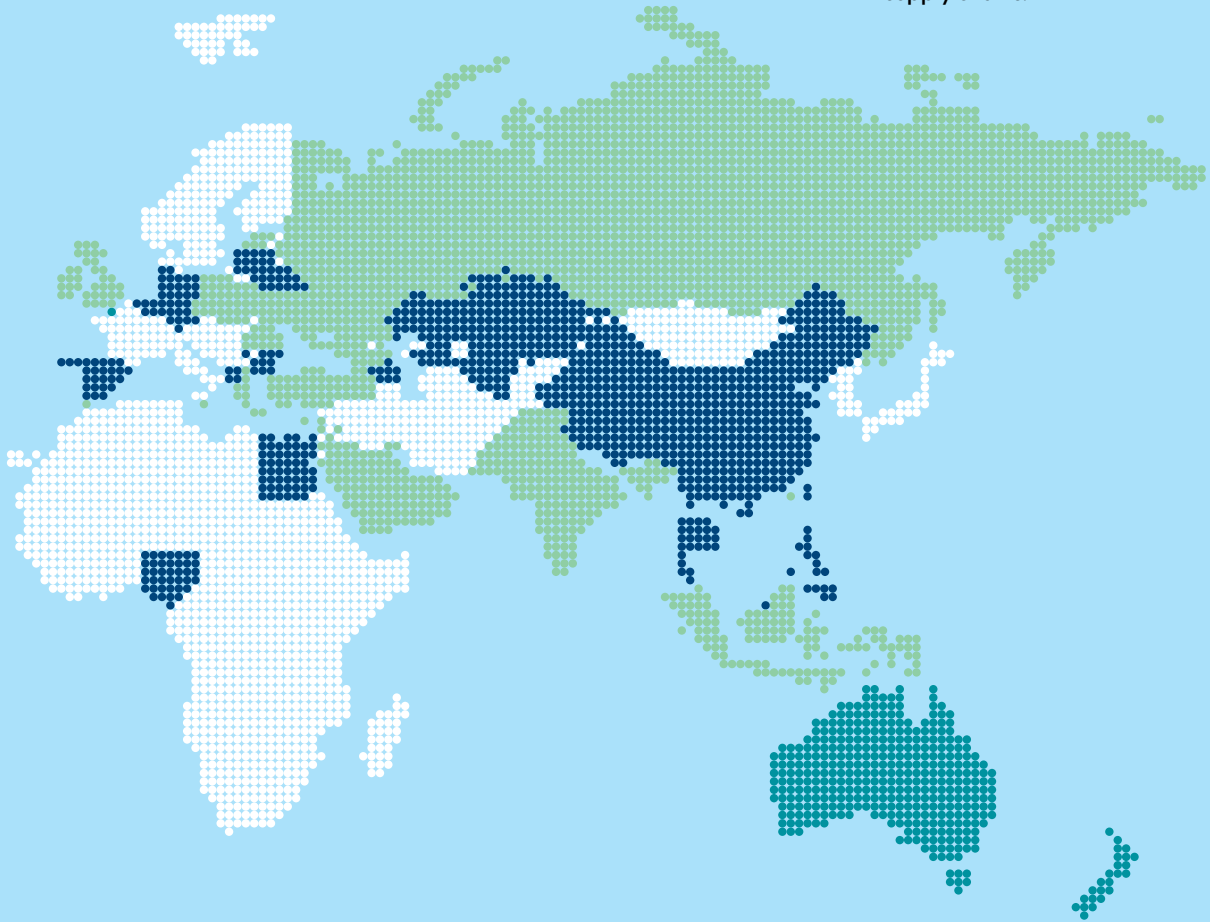
ELC spade and fork
£5.00



ELC plant pots
£10.00

Growing internationally

Our International growth has continued rapidly. We are truly a global branded group with extended family in 50 countries. During the year 115 franchise stores have opened. We have developed strong synergies within our international supply chains.



- Mothercare & ELC
- ELC
- Mothercare

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Where we have International franchises

- | | | | |
|--------------------|----------------|-----------------|------------------|
| 1. Albania | 14. Estonia | 27. Lithuania | 40. Saudi Arabia |
| 2. Armenia | 15. Germany | 28. Macedonia | 41. Serbia |
| 3. Australia | 16. Gibraltar | 29. Malaysia | 42. Singapore |
| 4. Azerbaijan | 17. Greece | 30. Malta | 43. Slovakia |
| 5. Bahrain | 18. Hong Kong | 31. New Zealand | 44. Spain |
| 6. Belarus | 19. India | 32. Nigeria | 45. Taiwan |
| 7. Belgium | 20. Indonesia | 33. Oman | 46. Thailand |
| 8. Brunei | 21. Ireland | 34. Pakistan | 47. Turkey |
| 9. Bulgaria | 22. Jordan | 35. Philippines | 48. UAE |
| 10. China | 23. Kazakhstan | 36. Poland | 49. Ukraine |
| 11. Cyprus | 24. Kuwait | 37. Qatar | 50. Uzbekistan |
| 12. Czech Republic | 25. Latvia | 38. Romania | |
| 13. Egypt | 26. Lebanon | 39. Russia | |

Results

The Mothercare group has grown sales, profit and dividend against the backdrop of a difficult global economic environment. The multi-channel UK business has again grown like-for-like sales, boosted by strong performances from Direct and the integration of the Early Learning Centre. Our International business had a record year with profits increasing by nearly 50 per cent.

Group sales for the year rose by 6.9 per cent to £723.6 million (2008: £676.8 million) and group profit before tax increased nearly ten-fold to £42.2 million (2008: £4.5 million). Like-for-like sales growth in the UK (up 1.4 per cent) and in International (up 6.0 per cent) contributed to this performance which was also boosted by the benefits of the integration of the Early Learning Centre and very tight control of costs. Our key underlying profit before tax measure calculated on the more comparable proforma basis (see below), increased by 12.4 per cent to £37.1 million (2008: £33.0 million). On the statutory basis (which is not comparable as the Early Learning Centre first quarter losses are included this year but excluded last year), underlying profit before tax decreased by 3.9 per cent to £37.1 million (2008: £38.6 million).

The group remains cash-generative and debt free. The acquisition facility was not drawn down at any point in the year and the net cash balance at the year end was £24.8 million (2008: £22.7 million). As a result of the strong underlying performance of the group and the positive cash generation, we are pleased to propose a final dividend of 9.9 pence giving a total dividend for the year of 14.5 pence, an increase of 20.8 per cent.

The remainder of this review and the financial review is prepared on the more comparable proforma basis. It assumes that the Early Learning Centre, which was acquired in the previous financial year on 19 June 2007, had been owned for all of last year.

Two world class brands

Our strategy is centred on the development of our two world class brands, Mothercare and the Early Learning Centre. Specialism and innovation are central to our brand positioning as we continue to build the Mothercare group as a leading global parenting retailer.

One of our exciting innovations this year was the launch of our exclusive Baby K range, designed in conjunction with celebrity mother Myleene Klass. The range has been successful in the UK and around the world and as a result we plan to extend Baby K into Home and Travel. We reached an exclusive licensing agreement with the BBC to produce 'In the Night Garden' Home and Travel products, which are selling ahead of our expectations. We also continue to have great success with the MyChoice buggy system which is a real innovation in allowing customisation of products by our customers. With its series of interchangeable options, the MyChoice has become one of our best selling pushchairs ever.

At the Early Learning Centre we have been working on our own brand toys. The best selling development toys this year included our own brand 'Making Music' range, 'Snow Queen Palace' and the 'Tower of Doom'.

The best in class expertise and specialism of our staff differentiates us from the competition and continues to be a key focus for us. We were again included in the top '20 Best Big Companies to Work For' in the 2009 Sunday Times awards progressing to 13th place overall.



(Top) Mothercare Dubai
Mall of Dubai

(Middle) ELC Bahrain

(Below) Mothercare China
Shanghai

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Operating margin

Underlying profit before tax as a percentage of sales.

5.1%

.....
Integrated stores



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Franchisee retail sales

Franchisee retail sales for the year up by 40.9 per cent to £404.2 million and underlying Mothercare group profits up by 47.9 per cent to £13.9 million on a proforma basis.



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Mothercare strategy

The Mothercare group four-lever growth strategy is providing significant benefits:

1. International franchise – globalisation of the two brands;
2. Integration benefits – Early Learning Centre acquisition;
3. Restructuring the UK property portfolio; and
4. Driving the multi-channel business.

1. International franchise – globalisation of the two brands

International represents the biggest single growth opportunity for the Mothercare group and we now have 609 overseas stores in 50 countries outside the UK. International continues to develop rapidly with overall franchisee retail sales for the year up by 40.9 per cent to £404.2 million and underlying profits up by 47.9 per cent to £13.9 million.

In the same way that the Mothercare brand has been so readily received around the world, the Early Learning Centre brand is proving to be just as popular. We have also invested in our global supply chain and we now have five distribution centres at the core of our state-of-the-art logistics network.

In Europe, we saw positive like-for-like growth, particularly in Russia, which contributes the highest international sales numbers for us worldwide. We plan to open a further ten new Mothercare and Early Learning Centre stores this year, which will bring our total stores number in Russia to 47.

The Middle East is a very important region for us where we see huge potential and we currently have 196 stores in the region, across nine countries. A key part of our development strategy in the Middle East is to open larger stores with the complete range of Home and Travel.

The International roll-out of the Early Learning Centre continues to do well, having almost doubled the number of Early Learning Centre stores outside the UK since acquisition to 164, and taken the brand for the first time to ten new countries this year including India, Bahrain and Kuwait. The Early Learning Centre is now present in 29 countries, up from 15 when we acquired it.

Side by side retail

We continue to work together to push forward and grow our two world class brands. We are achieving this by maximising the synergies from the integration of the Early Learning Centre, through ELC inserts, International roll-out, combined sourcing, the development of multi-channel and extensive cost synergies.

84
ELC inserts in
Mothercare
stores.



Mothercare m.p.v
double stroller
£130.00



MyChoice
four-wheeler
pushchair
£350.00



MyChoice
three-wheeler
pushchair
£350.00

Two into one

As our family grows we need to constantly assess and restructure our combined property portfolio. Some of the initiatives we have actioned this year are rightsizing, 2 into 1s and out of town format.

£5.0m profit

The property restructure is on track to deliver a total £5.0 million of profit before tax by the end of the financial year 2009/10.



Rosebud house
£25.00



ELC wonder
cubes
£10.00



ELC wooden
shape sorter
£10.00

2. Integration benefits – Early Learning Centre acquisition

Good progress has been made in realising the synergies from the Early Learning Centre acquisition. Total synergies for the financial year for 2008/09 enabled us to drive benefits ahead of the original business case and we now consider the integration of the Early Learning Centre to be substantially complete.

The largest single synergy from the acquisition of the Early Learning Centre has been through building Early Learning Centre inserts within Mothercare stores. Our 84 Early Learning Centre inserts performed at the top end of our expectations through Christmas and have continued to perform well since. The success of the inserts is due to the increased footfall each brand brings to the other.

Other significant cost savings have been achieved by combining the two businesses, including moving to a single management team and fully integrating the back office functions whilst maintaining the key talent and expertise of the Early Learning Centre team. During the year we successfully relocated the Early Learning Centre warehouse to a new site adjacent to the existing Mothercare warehouse in Daventry, resulting in further transport savings.

3. Restructuring the UK property portfolio

The Early Learning Centre acquisition gave us a unique opportunity to accelerate our property strategy, allowing us to integrate and optimise the combined UK property portfolio, taking the best sites from both brands. At the end of last year we announced a major restructure of our portfolio which included store rightsizing, consolidating two stores into one and store closures. In total, including the stores that received an Early Learning Centre insert or a new out of town refit, we announced that 145 stores would be affected by property restructure activity.

This restructure is now largely complete and the beneficial effects on the business can be seen with costs in the year £10.4 million lower than last year. The property restructure delivered £2.4 million of additional profit in 2008/09 and is on track to add £2.6 million of profit before tax in the financial year 2009/10, taking the total profit increase to our £5.0 million target.

With recent structural changes in the property market, we are well placed to rationalise further and as a result will move into the next phase of our property transformation. Almost 50 per cent of the group's property leases are coming up for renewal in the next three years enabling us to seek better lease terms, or move out of lower profit stores. This phase will also see us open new out of town 'Parenting Centres' in key catchments and open new stores in higher traffic locations such as malls and city centres where we do not currently have a presence, taking further advantage of the beneficial property deals currently available.

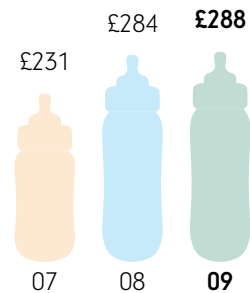
Integrated stores
Luton 2 into 1



Out of town
Stoke-on-Trent



Growing our proposition
UK sales per square foot on a statutory basis (Full year UK sales compared to year end UK store square footage)



Direct
Catalogues.



4. Driving the multi-channel business

The Direct business has continued its rapid growth with total sales through the Direct channel now amounting to £107.3 million, an increase of 25.5 per cent. This is made up of Direct in Home sales up 24.9 per cent to £62.2 million and Direct in Store sales up 26.3 per cent to £45.1 million.

Mothercare has been a pioneer in multi-channel retailing in the UK. The proportion of UK sales now delivered through our Direct channel has grown to 18.5 per cent. Our online range and web offering continues to improve and Web in Store in particular continues to be a great success with customers.

The Mothercare website offers customers a much wider choice of Home and Travel than is available in any store and two-thirds of our Clothing range is now available online. Our Early Learning Centre website also has more products available online than in-store including larger home and garden items that require home delivery.

We are also announcing today that we plan to launch Mothercare websites overseas with our franchisees. We are working with our partners to open two trial sites in the next year. The model will be based on a centralised site and support structure which share the look and feel of Mothercare.com, but with local language and fulfilment. Based on the performance of these trials, we may roll out further sites in other countries.

Gurgle.com, our social networking and information site for parents has proved a success with mothers around the world and now has 91,000 registered users. It is fast becoming a brand in its own right and our latest development for Gurgle has been the launch of three parenting advice books with Harper Collins.

Summary and outlook

This has been a strong performance for the Mothercare group. Our International business has enjoyed a record year, increasing profits by nearly 50 per cent. We now have 1,014 stores worldwide including 609 Mothercare and Early Learning Centre stores outside the UK in 50 countries. The multi-channel UK business has again grown like-for-like sales in a challenging market, boosted by strong performances from Direct and the integration of the Early Learning Centre.

Given the uncertain consumer environment we are planning cautiously for 2009/10 and, as previously announced, we expect that gross margins will come under further pressure from the weakness of sterling.

Overall, we are well placed as we enter the new financial year, benefiting from our growing International platform, resilient multi-channel UK business, strong cash flow and debt free balance sheet.

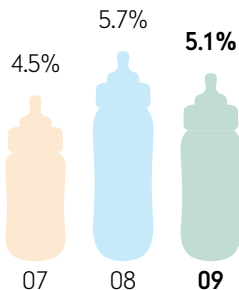
Social networking success
Gurgle.com – online advice for parents.



Ben Gordon

Ben Gordon
Chief executive

Operating margin
Underlying profit before tax as a percentage of sales on a statutory basis.



Clicking with Direct

We continue to grow our Direct business through Direct in Home and Direct in Store. Progress has been rapid over the past year, with growth increasing over 25 per cent. We aim to provide the widest choice, use the best technology and leverage the success of online.

25.5%
increase in
Direct in Home
and Direct
in Store sales

91,000
registered users
on Gurgle.com



VTech my laptop
Orange
£20.00



Till point
Blue
£20.00



Shopping trolley
£16.00

Financial review

Results summary

Following the acquisition of the Early Learning Centre on 19 June 2007, the results summary that follows is again prepared on the more comparable proforma basis which assumes that the Early Learning Centre had been owned for all of last year.

On this basis, group underlying profit before tax increased by 12.4 per cent to £37.1 million (2008: £33.0 million). Underlying profit excludes exceptional items, amortisation of intangible assets (excluding software) and the volatile non-cash foreign currency adjustments (note 7).

Income statement – proforma basis

£ million	2008/09	2007/08
Revenue	723.6	703.6
Profit from operations	37.2	34.4
Financing	(0.1)	(1.4)
Underlying profit before tax	37.1	33.0
Loss on disposal/termination of property interests	(3.1)	(16.9)
Integration costs	(1.5)	(18.8)
Other reorganisation costs	–	(0.4)
Non-cash foreign currency adjustments	11.8	2.5
Amortisation of intangible assets	(2.1)	(2.0)
Profit/(loss) before tax	42.2	(2.6)
Underlying EPS – basic	32.1p	28.5p

Non-underlying items

Underlying profit before taxation on a proforma basis excludes the following non-underlying items:

- Exceptional losses on disposal or termination of property interests and integration costs of £4.6 million;
- Non-cash adjustments relating to the revaluation of monetary assets, liabilities and stock, and marking to market of foreign currency hedges at the year end. As the hedges are taken out to match future stock purchase commitments, these are theoretical adjustments which we are required to make under IAS 39 and IAS 21. They will reverse in 2009/10. The net adjustment is a particularly large gain this year due to the recent devaluation of sterling against the dollar; and
- Amortisation of intangible assets (excluding software) of £2.1 million.

Exceptional items in 2007/08 included £35.7 million of exceptional losses on disposal of property interests and integration costs relating to the integration of the Early Learning Centre and the resulting property restructure of both businesses.

Results by segment – proforma basis

The primary segments of Mothercare plc are the UK business (including Direct) and the International business.

£ million	Revenue 2008/09	Revenue 2007/08
UK	578.8	587.3
International	144.8	116.3
Total	723.6	703.6

£ million	Underlying profit before tax 2008/09	Underlying profit before tax 2007/08
UK	32.1	34.5
International	13.9	9.4
Corporate	(8.8)	(9.5)
Financing	(0.1)	(1.4)
Total	37.1	33.0

Corporate expenses represent head office costs, board and senior management costs, audit, insurance and professional fees. The 7.4 per cent reduction in corporate costs is a result of tight cost control and integration synergies.

International profits have increased by 47.9 per cent compared with last year, boosted by the weakness of sterling against the US dollar. UK profits have declined by 7.0 per cent, however the UK bears the cost of the increase in the pension charge (see below) and in the group bonus and IFRS 2 share-based payment charge. If these are excluded, UK profits improved by £1.3 million compared with last year.

Like-for-like sales

Like-for-like sales are defined as sales for stores that have been trading continuously from the same selling space for at least a year and include Direct in Home and Direct in Store. Sales from Early Learning Centre inserts in Mothercare stores are included where they are trading in existing Mothercare space. Like-for-like sales are presented on a proforma basis. International retail sales are the estimated retail sales of franchisees and joint ventures. International like-for-like sales are calculated at constant rates of exchange.

Financing and taxation

Financing represents interest receivable on bank deposits and costs relating to bank facility fees, and the unwinding of discounts on provisions.

The underlying tax charge is comprised of current and deferred tax and is calculated at 28.0 per cent (2008: 30.0 per cent) of the estimated taxable profits for the year. A total tax charge of £11.9 million (2008: £4.4 million) has been included.

Pensions

With the triennial valuation of our defined benefit schemes now complete, we have concluded our discussions with the Trustees on future funding and the following changes are being made to the defined benefit schemes:

- schemes now closed to new members (new defined contribution scheme opened instead);
- cap on the revaluation of future pension benefits lowered to 2.5 per cent;
- increase in member contributions of up to 3.0 per cent of pensionable salary;
- one-off cash contribution by the Company of £3.0 million in 2009/10; and
- increase in regular contributions by the Company of approximately £1.0 million per annum.

As a result of the above, it is expected that the deficit in the fund will be eliminated within the next ten years.

Details of the income statement net charge, total cash funding and net assets and liabilities under IAS 19 are as follows:

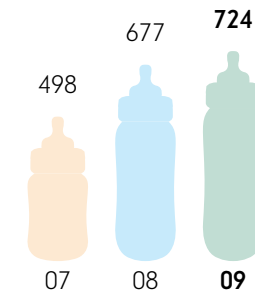
£ million	2009/10*	2008/09	2007/08
Income statement			
Current service cost	(3.0)	(2.5)	(3.8)
Return on assets/ interest on liabilities	(1.2)	1.6	3.7
Net charge	(4.2)	(0.9)	(0.1)
Cash funding			
Company contributions	(5.0)**	(4.7)	(3.7)
Balance sheet			
Fair value of schemes' assets		150.2	181.1
Present value of defined benefit obligations		(175.6)	(167.3)
Unrecognised surplus		-	(11.8)
Net (liability)/asset	N/A	(25.4)	2.0

* Estimate

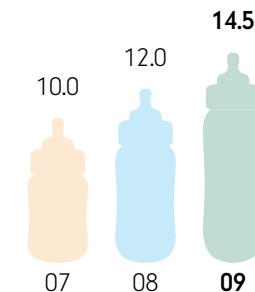
** Excludes one-off contribution of £3.0 million

The effect of movements in the principal assumptions used to measure the scheme liabilities for every change in the relevant assumption are set out in note 33.

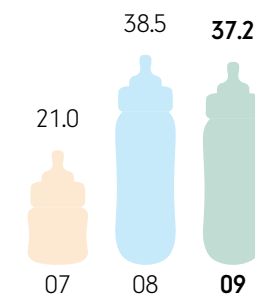
Group sales growth on a statutory basis £ million



Total dividend pence



Underlying profit from operations before interest on a statutory basis £ million



Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of £26.8 million and goodwill of £68.6 million.

The group continues to generate cash, with net cash flow from operating activities of £34.9 million. After investing £22.8 million of capital expenditure, £13.4 million of integration and property costs and paying £10.9 million dividends, the net cash position at the year end is positive, at £24.8 million (2008: £22.7 million).

Going concern

Our objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long term returns to shareholders and safeguards the group's ability to continue as a going concern. As appropriate the group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, returns of capital to shareholders, issuing new shares or varying the level of capital expenditure.

The group has a committed secured bank facility of £55.0 million at an interest rate of 1.0 per cent above LIBOR which expires on 31 May 2010. It also has an uncommitted unsecured bank overdraft of £10.0 million at an interest rate of 1.0 per cent above the bank base rate.

The group's committed borrowing facility contains certain financial covenants which have been met throughout the year. The covenants are tested half-yearly and are based around gearing, fixed charge cover and guarantor cover.

The committed bank facility was unused throughout the year and at year end the group had a cash balance of £24.8 million in addition to the £65.0 million of available facilities. The group's latest forecasts and projections have been sensitivity-tested for adverse variations in trading performance and show that the group is expected to operate within the terms of its current borrowing facility and covenants for the foreseeable future.

Capital expenditure

Total capital expenditure was £22.8 million (2008: £20.4 million), of which £15.9 million was invested in UK stores. This is broadly in line with depreciation of £19.9 million in the year, however the net capital expenditure spent after deducting £6.6 million of landlords' contributions to store fit-outs is £16.2 million, significantly below the ongoing level of depreciation. Capital expenditure for 2009/10 is expected to be £15.0 million (net of landlords' contributions to store fit-outs).

Earnings per share and dividend

Basic underlying earnings per share on a proforma basis were 32.1 pence (2008: 28.5 pence). Total basic earnings per share increased to 36.3 pence (2008: 0.1 pence). The directors recommend a 19.3 per cent increase in the final dividend to 9.9 pence (2008: 8.3 pence) giving a total dividend for the year of 14.5 pence (2008: 12.0 pence), an increase of 20.8 per cent, in line with the Company's progressive dividend policy.

The final dividend will be payable on 7 August 2009 to shareholders registered on 5 June 2009. The latest date for election to join the dividend reinvestment plan is 17 July 2009.

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 risk to which the group is exposed relates to movement in exchange rates and interest rates. Where appropriate, cost effective and practicable, the group uses financial instruments and derivatives to manage the risks.

No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk

All international sales to franchisees are invoiced in pounds sterling or US dollars.

International sales represent approximately 20 per cent of group sales. Of these sales, 16 per cent were invoiced in foreign currency. The group therefore has some currency exposure on these sales, but it is used to offset or hedge in part the group's dollar denominated product purchases. The group purchases product in foreign currency, representing some 32 per cent of purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

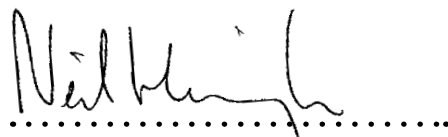
At 28 March 2009, the group had positive cash balances. Given the cash generative nature of the group, interest rate hedging was not considered necessary. The board will keep this matter under review as the group develops.

Shareholders' funds

Shareholders' funds amounts to £198.6 million, an increase of £0.6 million in the year. This is equivalent to £2.27 per share compared to £2.27 per share at the previous year end.

Accounting policies and standards

The principal accounting policies and standards used by the group are shown in note 2.



Neil Harrington
Finance director

Corporate responsibility

Last year we reported for the first time on our developing corporate responsibility programme; what the term means to us, how we manage it and what we had achieved. Since then we have made good progress across all four areas; cutting fuel use, expanding our ethical trade work, giving more through the Mothercare Group Foundation and rising up the list of the Sunday Times' '20 Best Big Companies to Work For'. We believe that good financial performance goes hand in hand with responsible business practices.

Defining and managing corporate responsibility

For us, corporate responsibility (CR) has four linked elements:

Responsible sourcing: Ensuring that our suppliers and partners – particularly those we buy from directly – respect human rights, offer decent working conditions and pay attention to environmental issues. Ensuring we are a fair and honest company to do business with and providing safe, good quality products.

Environment: Understanding and managing our impact on the environment – the carbon footprint of our stores, warehouses and vehicles, the waste we dispose of and the packaging on our products. Providing a choice of products that have environmental credentials for our customers.

Community: Playing our part as a corporate citizen, supporting charities and community activities that affect our staff, customers and people in our supply chain.

Good employer: Treating our staff fairly and equally, investing in them and making sure everyone can develop and contribute.

The board has delegated this important activity: a steering committee of representatives from both brands under the co-chairmanship of Clive Revett (group company secretary) and Gillian Berkmen (group brand and commercial director) meets approximately bi-monthly. This committee makes the essential decisions, recommends all key policies for approval by the board and monitors progress towards the group's CR targets.

Much of the day-to-day work is done by four management groups which address issues relating to waste and energy, responsible sourcing, new product development and packaging reduction. Mothercare has a small central CR team to provide expertise and resource.

Our CR targets

We have chosen to drive our CR programme through six long term targets focused on the year 2013 (five years from our start in 2008). These are as follows:

- To cut the absolute carbon emissions from both our UK buildings and our UK fleet by 15 per cent (compared to the 2007 baseline);
- To cut the packaging associated with every £100 of products that we sell by 20 per cent (compared to the 2007 baseline);
- To cut the number of single-use carrier bags by 50 per cent (compared to the 2007 baseline);
- We will ensure that over 50 per cent of the wooden products we sell are made from wood that is either recycled or certified by the FSC (Forest Stewardship Council)*;



Business review continued

- Pushing up recycling, ensuring that at least 75 per cent of our waste is recycled; and
- For the group's community programme to be raising £1 million for charity.

* We are considering amending our target on wood sourcing slightly to recognise the improvements made in other forest certification schemes and also to take an explicit stance against unsustainable and illegal logging practices. The revised target will be reported upon next year.

2008/09 in more detail

Responsible sourcing

The Mothercare group has a robust and sustainable ethical trade programme which we continue to review and improve as we learn and understand more about the issues that affect our global supply base. In the last 12 months we have continued in our pursuit of factory compliance with our Responsible Sourcing Code of Practice; detailing the standards we expect suppliers to achieve across ten areas including health and safety, working hours and minimum wages.

In 2007 we joined SEDEX (Supplier Ethical Data Exchange) which is the world's largest database of labour standards. It provides

a platform for suppliers to share their ethical and environmental information confidentially. A condition of our business is that all own brand suppliers and factories used to manufacture our products must join SEDEX, complete an online self assessment and present an independent third party audit together with a corrective action plan where required. We are currently able to access social audit information on 383 sites.

'Full service' suppliers (suppliers who manage the relationship with factories on our behalf) are expected to engage with and monitor the factories they use against the standards in our Code. Our Technology team monitors full service suppliers and their supply base using SEDEX to ensure continuous progress is made.

We also have a dedicated Responsible Sourcing team that works closely with the factories that we have a direct relationship with – providing support and training. Last year we reported our intention to strengthen our resource in this area. The team has expanded from a head count of four to six, with the addition of a Responsible Sourcing Manager and a Code Compliance Executive based in Hong Kong and China.

A series of supplier conferences were held in the UK, Hong Kong, China and India. Presentations and question and answer sessions were used to facilitate learning and suppliers were asked to share both best practice and challenges that they had faced in implementing the Code. The conferences were well attended, reaching approximately 200 suppliers and feedback was positive. We will build on this in 2009.

Our project work in India is ongoing. In attempting to improve supply chain standards we have spent significant resource to try to uncover the more complex issues that may not be picked up during an audit. Through worker interviews we are gaining an understanding of what could be done to make their lives easier.

We support our CR targets with year-by-year objectives. Last year's were:

Objective	Status
Cut store energy use including bringing ELC stores into Mothercare's energy management system and running a staff energy awareness campaign.	Largely done: Staff awareness campaign will follow completion of meter installation programme.
Consolidation of the business's delivery fleets to gain efficiencies and look for ways to increase our use of rail transport for goods.	Done: Fleets consolidated and fuel use cut by 15 per cent.
Commence a project to systematically review and reduce the amount of packaging on our products and investigate ways to cut carrier bag use.	Under way: Project under way.
Establish baseline data on our waste from stores and Distribution Centre by running a pilot project to investigate ways to reduce the amount of store waste being sent to landfill.	Done: New contractor appointed with this remit.
Development of a new group-wide policy on the purchase and use of wood and paper products, bringing the whole group up to the same high standards.	Under way: Existing policies remain pending development of group policy.
Review our approach to charitable giving with an aim to concentrate more of our activity through a single large-scale partnership that can apply to all of the group's worldwide business, including our franchise partners.	Under way: We have met with some possible partners but have not yet made a decision.

Although we had identified a project in China which we hoped to start during 2008 the factory was flooded and the supplier was unable to accommodate our plans. A new project partner has been identified and the project will be initiated during 2009.

Our membership of the Ethical Trading Initiative (ETI), which is a tri-partite membership group comprising unions, non-government organisations (NGOs) and businesses, continues to provide us with a platform for discussion with like-minded colleagues. In the last year we have joined two ETI committees: the China Forum and Homeworkers Group. This has directly led to the development of policies on homeworkers and child labour. By publishing and implementing our policies, we are encouraging our suppliers to engage in the process with honesty and transparency.

Some social and environmental issues are too deep rooted for us to resolve alone. In early 2009, Mothercare initiated a brand collaboration, working with Labour Behind the Label (an NGO that supports garment workers' efforts worldwide to improve their working conditions) to help resolve issues within a factory in our supply chain.

In the coming year we aim to further investigate the potential for collaboration with other brands at the factory level.

The final aspect of our strategy involves internal communication and training on ethical issues. A number of related articles have been published in 'Small Talk', Mothercare's employee magazine, and information is provided in the updated staff handbook. The buying teams received training in March 2008 which will be updated during 2009. Ongoing dialogue with the buying teams is fostered through the responsible sourcing committee meetings which are attended by representatives from across the buying and sourcing functions.

Environment

The group's most important environmental aspects are:

- Our stores, using energy and producing waste;
- Our warehouses, again using energy and producing waste;
- Our transport fleets, bringing products from the docks to the warehouses, from the warehouses to stores or customers' homes;
- Our products, and the materials used to make them; and
- The packaging and other bulk materials that we use.



All of the above pictures show the work of the Liverpool Centre for Better Births.

	2007/08	2008/09	% change
Building energy use (m kWh)	71.2	63.5	(11%)
Transport fuel used (m litres)	2.6	2.2	(15%)
Transport mileage (m miles)	6.1	5.2	(15%)
Carbon emissions (tonnes)	39,500	36,000	(9%)
Of which:			
Buildings	32,600	30,200	(7%)
Transport	6,900	5,800	(16%)
Packaging used (tonnes)	11,500	8,600	(25%)
Mothercare carrier bags used (m)	17.4	13.9	(20%)

Certain of the figures reported in 2007/08 have been adjusted following an in-depth review after the acquisition of ELC.

Energy management: During the year Mothercare and ELC energy contracts were consolidated to one supplier and we have begun installation of Automatic Meter Reading equipment in all stores to provide immediate information about energy usage, allowing us to promptly correct over-consumption and waste. Once the installation programme is complete a staff awareness campaign will help everyone understand how to benefit from this equipment.

All Mothercare stores (and a growing number of ELC stores) have energy management systems. Heating and lighting controls are all pre-set and managed centrally (with some degree of local flexibility to enable staff to maintain a comfortable environment). Throughout the year we started installing voltage stabilisers in both new and current stores which achieve a 15 per cent energy saving in each store they are fitted. We have also begun a programme of light reduction schemes in 10 stores to date, which are reducing energy usage by a further 10 per cent per store. Our warehouses are all modern and energy efficient buildings also benefiting from voltage trimmers, lighting controls and energy management systems.

Transport fleet: We have made big changes to our transport fleets, combining those from ELC and Mothercare, increasing efficiency, reducing the miles travelled and the carbon footprint. We have started to use double decker trailers, driver award schemes and upgraded a number of older vehicles in a bid to further reduce emissions. A further saving on diesel usage has been made by limiting our speed to 52mph and better driver standards.

Our route patterns have changed this year. We have implemented a programme to use our empty vehicles to collect stock direct from suppliers who previously delivered it into our warehouses for us. This has tended to increase our mileage, but has reduced the overall number of vehicles on the roads on group business. Unfortunately, we have had to reduce rail use to our depots in Scotland and Daventry as changes to rail pricing made these routes uneconomic.

Packaging: We have formed a working group to tackle packaging reduction. Early actions include simple steps to remove unnecessary filler and standardising box sizes allowing us to use them in our warehouse racks. A new packaging technologist has been employed and has started work on a Group Packaging Manual, designed to better specify the packaging we should use. We have much better data this year on the packaging on our imported products, which has resulted in a big drop from previous years. Our carrier bag usage in the UK has also dropped by 20 per cent as staff and customers become more sensitive to this form of waste: store staff are careful to only offer bags when necessary. During 2009 we plan to standardise our range of bags and re-launch these with 40 per cent recycled content.

Waste: Much of the waste from stores is the packaging removed from products needed to get the product safely onto display. The Packaging Working Group is tackling this at source to help reduce store waste. During the year we appointed a new waste contractor. They were chosen because of their environmental credentials and recycling expertise to support the achievement of our 75 per cent recycling target. Waste from all warehouses is separated and recycled where possible. The National Distribution Centre at Daventry recycled 1,100 tonnes of waste last year, sending only 130 tonnes to landfill.

Products: The Eco-Product Working Group was formed in 2008 and comprises representatives from both Mothercare and ELC to focus on increasing our range of eco-friendly products. A priority has been to look at the purchase of wood and paper materials for our products, and we commissioned an independent review during the year. The review showed that our current level of FSC certified product was well on the way to our 50 per cent target, but also highlighted the growing credibility of other certification schemes.

Community

The group invests significantly in community and charitable activities via its donations to the Mothercare Group Foundation. The Foundation is an independent charity chaired by Karren Brady with Ian Peacock, Ben Gordon and Clive Revett acting as additional trustees. It has the following objectives:

- 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 relating to family well-being.

In 2008/09 we donated £125,000 (2007/08: £100,000) directly to the Foundation. In the same year the Foundation made awards totalling £186,000 (2007/08: £95,000). The main projects supported were:

Wellbeing of Women	£40,000
The Centre for Better Births	£35,000
The University of Cambridge Foundation (Baby Growth Study)	£35,000
Richard House	£20,000
Kidsout	£22,000
The Chairman's Fund	£20,000

Wellbeing of Women: The Foundation has made a second significant donation to fund Wellbeing of Women's Eating for Pregnancy service, approving funding of a further £40,000 (taking our total to £80,000). Our initial funding last year enabled Wellbeing of Women to set up a new online resource to support pregnant women and new mums with advice on eating well with the new website (www.eatingforpregnancy.org.uk). Almost 32,000 people have been helped since the site was launched with a 20 per cent increase since August 2008.

The Centre for Better Births: The Centre for Better Births is a collaborative initiative between the University of Liverpool and the Liverpool Women's Hospital, which aims to make births better and safer for mothers and babies everywhere. The Centre aims to gain new insights into why labour can go

wrong, to improve pregnancy and labour outcomes for women and to significantly reduce the numbers of emergency caesarean sections and miscarriages. The Foundation's donation funded a research project into foetal distress in labour, paying for a research assistant for 12 months to investigate this special area.

The University of Cambridge Foundation: The Foundation is supporting the Cambridge Baby Growth Study, which looks into many issues surrounding baby growth, in particular the effect of environmental chemicals on the foetus. The study is ongoing and progressing well.

The Chairman's Fund: This is an annual allocation donated following a competition among staff to propose the most deserving or inspiring cause. This year the fund was doubled to £20,000 to mark the coming together of Mothercare and ELC. As a result 13 charities benefited from donations of between £5,000 and £1,000.

Our people

Mothercare group relies on the effort and performance of around 7,500 people, the vast majority of whom are in the front line serving customers. Everything we do in people management revolves round four core elements – our DNA – that define how we want to behave:

- Care for parents
- Make the business stronger
- Pull together
- Get it done

These elements are embedded in all our HR processes – the way we recruit, appraise and promote people – recognising and rewarding staff who display them. This activity has been led from the very top of the organisation, with our Executive team appraised equally against this framework. The DNA has had a profound effect on our culture.

This year we have recognised the increasingly international nature of the group and have been making the necessary changes to our approach. We have reviewed and re-launched 57 policies in a global format, simplifying them and testing each for cultural appropriateness with our non-UK colleagues.

The business is committed to providing equal opportunities for all staff regardless of race, gender, age, disability or religious background. We have investigated our gender diversity, and taken some steps to ensure that the business is representative in stores and head office.

Training and development has this year focussed on leadership, through an extensive programme delivered personally by our HR director and based on an independent and established framework. Feedback has been good and we plan to extend the programme.

There are two staff consultative bodies (our 'Sounding Boards') operating at head office and at store level, which gives us a great opportunity to hear and respond to the opinions of staff. We have made heavy use of these and other consultative approaches this year as we have prepared the business for the prevailing economic conditions and integrated the two brands.

In recognition of our status as a good employer, we have again been voted one of the '20 Best Big Companies to Work For' by our people; moving up to 13th place (from last year's position at 18th) and the highest ranked retailer in the survey.

The award is adjudicated by the Sunday Times and is based on anonymous survey responses from at least 40 per cent of a randomly selected group of staff. This is the first year we have entered as a group. When ranked on people's sense of 'belonging' Mothercare moves up to 3rd position. The Sunday Times said: 'There's a feelgood factor at Mothercare that makes employees feel part of one big happy family.'



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 (Top) ELC store team – some of our people.
 (Middle) Myleene Klass at the launch of the Baby K range.
 (Below) Tirupur hospital fundraising.