

Business review UK

“We must remain entirely focused on the customer, if we are to succeed in the UK.”

Matt Stringer
Commercial Director
– UK



UK space

2013	1,805k sq. ft.
2012	1,946k sq. ft.
2011	2,017k sq. ft.

-3.6%

UK like-for-like sales supported by the return to growth of Direct in Home of 18.2% during the last quarter of the year

It has been a busy year with good progress made towards achieving our goal of returning the UK to profitability. Losses were reduced by 12.1 per cent, compared to last year, as the benefits of the initiatives taken began to have a positive impact on the UK business. Whilst there is more to be done, I am pleased with what we have achieved so far.

At the beginning of the year we said we were going to close circa 50 stores, allowing us to eliminate £3 million of losses at store contribution level, while also reducing non-store operating costs by £8 million. We have met our cost targets and exceeded the store closure target with 56 stores (13 Mothercare and 43 Early Learning Centre) closed during the year. Our aim is to maintain a national presence in the UK, which is central to our multi-channel strategy. As part of this strategy, we transitioned to a new online platform in May last year and have improved delivery options for all our customers. The results have been encouraging with Direct in Home growing by 18.2 per cent during the last quarter of the year. We also refurbished our stores in Edmonton, Nottingham and Dudley, which are performing ahead of the rest of the store estate and aim to refurbish at least a further two this year in addition to Leeds already completed.

If we are going to succeed in the UK, we must be entirely focused on our customers. We know from customer

surveys that we need to improve our value credentials. We have listened and in Clothing, we have improved value across all our ranges; while also relaunching our more on-trend maternity range ‘Blooming Marvellous’ at keener price and launching our highly successful ‘Value’ range for children’s clothing. Our price match strategy in Home & Travel has allowed us to improve value in this segment where as much as 50 per cent of the range is easily comparable branded products. The launch of own-brand products like Innosense and Xpedior in Home & Travel will also allow us to improve value while re-establishing our credentials as the leading mother and baby specialist in the UK. In addition, our Early Learning Centre ranges have seen significant progress with new products focused on encouraging learning through play, while keeping prices down.

So as you can see, we have made significant progress during the year. We have improved value across Clothing and Home & Travel, introduced new and innovative own-brand products in Home & Travel and Toys, relaunched our online platform and invested in service while also refurbishing three stores and closing 56 loss-making stores. This is a good start and I look forward to building on these themes in the year ahead.

Matt Stringer
Commercial Director – UK

International

“Our International business is well diversified, resulting in another year of solid double-digit growth for both sales and profits.”

Jerry Cull
Managing Director
– International



International space

2013	2,347k sq. ft.
2012	2,283k sq. ft.
2011	1,845k sq. ft.

+5.6%

International now has 1,069 stores across 60 markets and like-for-like sales remain positive at 5.6%

Our International business continues to grow from a very solid base, built up over the last 10 years. The results are a testament to the strength of our relationships with our franchise partners and the hard work put in by our International team.

We now have 2.3 million sq. ft. across both the Mothercare and Early Learning Centre brands with 1,069 stores in 60 countries. Space was up 2.8 per cent on a statutory basis. Excluding Australia and New Zealand and on a comparable and ongoing basis space was up 13.5 per cent, which along with 5.6 per cent like-for-like sales growth saw International retail sales grow by 15 per cent in constant currencies. As planned, profits were up 20.3 per cent at £42.0 million.

The diversified nature of our International business meant we were able to deliver these results despite weaker trading conditions in the Eurozone and our Australian associate going into administration. Regardless of these issues both Europe and Asia grew space and retail sales last year. It is encouraging to note that all four of our regions continue to offer exciting growth opportunities. While it is easy to see the growth opportunities offered by our less mature markets like those in Latin America, Russia, China and India, we believe there remains plenty of opportunity even in our more mature markets.

The **Middle East and Africa** is our oldest region, where we have had a presence for over 30 years. Even here we can expect to see double-digit space and sales growth as we benefit from the trend towards larger stores and the move to a multi-channel format over the term of our Transformation and Growth plan. **Europe**, our largest region is expected to see continued growth as Russia, our largest International market remains far from maturity, and compensates for Eurozone weakness. **Asia** is also far from maturity, with markets like China and India still growing their footprint. Our joint ventures in these markets are expected to turn profitable over the course of our three-year plan. We have been in **Latin America** for just over a year, but already we have made significant progress and are now in six markets.

The outlook remains very favourable with our partners fully committed to the brands. I look forward to leveraging these relationships and growing our International business in the years ahead.

Jerry Cull
Managing Director – International

Financial review

Results summary

Group underlying profit before tax increased by £6.7 million to £8.3 million (2011/12: £1.6 million). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. After these non-underlying items, the group recorded a pre-tax loss of £21.5 million (2011/12: Loss of £102.9 million). Underlying profit from operations before interest and the IFRS 2 share-based payments charge increased by £9.9 million to £12.5 million.

Income statement

£ million	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012
Revenue	749.4	812.7
Underlying profit from operations before interest and share-based payments	12.5	2.6
Share-based payments	(0.9)	(0.6)
Net finance costs	(3.3)	(0.4)
Underlying profit before tax	8.3	1.6
Exceptional items and unwind of discount on exceptional provisions	(35.7)	(104.5)
Non-cash foreign currency adjustments	6.9	2.0
Amortisation of intangible assets	(1.0)	(2.0)
Loss before tax	(21.5)	(102.9)
Underlying EPS – basic	6.2p	1.8p
EPS – basic	(24.9)p	(105.2)p

53rd week in 2012

The year ended 30 March 2013 contains 52 weeks compared to 53 weeks for the year ended 31 March 2012. The financial statements and this review have therefore been prepared on this basis.

For information, on a more comparable, 52 week basis:

- Group sales were down 6.3 per cent to £749.4 million (2012: £799.6 million).
- UK sales were down 9.2 per cent to £499.7 million (2012: £550.3 million).

- International revenue was up 0.2 per cent to £249.7 million (2012: £249.3 million).
- Group profit before exceptional items and taxation was up £6.8 million to £8.3 million (2012: £1.5 million).

Profit from operations before share-based payments includes all of the group's trading activities, but excludes the share-based payment costs charged to the income statement in accordance with IFRS 2 (see below).

Non-underlying items

Underlying profit before tax excludes the following non-underlying items:

- Non-cash adjustments principally relating to marking to market of commercial foreign currency hedges at the period end. As 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. These standards require us to revalue stock and our commercial foreign currency hedges to spot. This volatile adjustment does not affect the cash flows or ongoing profitability of the group and reverses at the start of the next accounting period.
- Amortisation of intangible assets (excluding software).

Exceptional items:

- Australian associate write-off costs of £11.1 million.
- Net losses on disposal or termination of property interests of £13.8 million.
- Onerous lease provision for the UK business of £4.3 million.
- Store impairment provision in relation to the UK business of £1.8 million.
- Restructuring costs of the UK and head office organisation of £4.2 million.

Exceptional items in 2011/12 included £9.1 million restructuring costs of the UK business, £22.6 million net losses on disposal or termination of property interests, £11.5 million onerous lease provision for the UK business, £3.8 million store impairment provision in relation to the UK business, £55.0 million goodwill and intangible assets impairment in relation to UK share of goodwill and other intangibles arising on the acquisition of ELC, £2.8 million impairment of investment in Australian associate, £0.4 million share of restructuring costs in the Australian associate business and £0.8 million share-based payments credit (resulting from the UK restructure).

Results by segment

The primary segments of Mothercare plc are the UK business and the International business.

£ million – Revenue	52 weeks to 30 March 2013	53 weeks to 31 March 2012
UK	499.7	560.0
International	249.7	252.7
Total	749.4	812.7
£ million – Underlying Profit/(loss)	52 weeks to 30 March 2013	53 weeks to 31 March 2012
UK	(21.7)	(24.7)
International	42.0	34.9
Corporate	(7.8)	(7.6)
Profit from operations before share-based payments	12.5	2.6
Share-based payments	(0.9)	(0.6)
Net finance costs	(3.3)	(0.4)
Underlying profit before tax	8.3	1.6

UK retail sales have declined year on year due to store closures and declining like-for-like sales across the store estate partially offset by increases in our Direct in Home business. Profit has benefited from the property strategy, with the continued exit from loss-making stores and tight cost control.

International has benefited from increased royalties driven from higher network sales and overhead cost savings. International profit also includes losses in joint ventures and associates which have reduced during the year.

Corporate expenses represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

Share-based payments

Underlying profit before tax also includes a share-based payments charge of £0.9 million (2011/12: £0.6 million) in relation to the Company's long term incentive schemes. There are five main types of long-term share-based incentive scheme being the Long Term Incentive Plan, the Executive Incentive Plan, the Performance Share Plan, the Deferred Shares Plan and the Save As You Earn schemes. Full details can be found in note 28.

The charges as calculated under IFRS 2 are theoretical calculations based on a number of market-based factors and estimates about the future, including estimates of Mothercare's future share price, future profitability and TSR in relation to the General Retailers. As a result it is difficult to estimate or predict reliably future charges.

Like-for-like sales, total International sales and network 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.

International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers (rather than Mothercare sales to franchisees as included in the statutory or reported sales numbers). Total International sales are International retail sales plus International Wholesale sales. Group network sales are total International sales plus total UK sales. Group network sales and reported sales are analysed as follows:

£ million	Reported sales		Network sales*	
	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012
UK retail sales	468.2	528.7	468.2	528.7
UK wholesale sales	31.5	31.3	31.5	31.3
Total UK sales	499.7	560.0	499.7	560.0
International retail sales	242.0	245.8	721.0	665.5
International wholesale sales	7.7	6.9	7.7	6.9
Total International sales	249.7	252.7	728.7	672.4
Group sales/Group network sales	749.4	812.7	1,228.4	1,232.4

* Estimated

Financial review

continued

Financing and taxation

Financing represents interest payable on borrowings and costs relating to bank facility fees and the unwinding of discounts on provisions.

The underlying tax charge comprises current and deferred tax. The effective tax rate is 33.7 per cent (2011/12: nil per cent). The effective tax rate is higher than the standard tax rate of 24 per cent mainly due to the write-off of a deferred tax asset. The tax charge in some areas of business has been offset by allowable tax losses. An underlying tax charge of £2.8m (2011/12: £Nil) has been included for the period and in total the tax charge was £0.5m (2011/12: credit of £11.1m).

Pensions

During the year the group's defined benefit pension schemes have been closed to future accrual.

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

£ million	As per amendments to IAS 19		As reported	
	2013/14* New IAS	2012/13 New IAS	2012/13	2011/12
Income statement				
Service cost	(0.1)	(2.4)	(2.4)	(2.3)
Running costs	(1.0)	(0.8)	–	–
Return on assets/(interest) on liabilities	(2.8)	(2.6)	(1.0)	0.2
Gains on curtailment	–	3.3	3.3	0.2
Net charge	(3.9)	(2.5)	(0.1)	(1.9)
Cash funding				
Regular contributions	–	(2.0)	(2.0)	(1.9)
Deficit contributions	(6.2)	(5.2)	(5.2)	(6.1)
Total cash funding	(6.2)	(7.2)	(7.2)	(8.0)
Balance sheet				
Fair value of schemes' assets		234.8	234.8	217.3
Present value of defined benefit obligations		(296.4)	(296.4)	(270.0)
Net liability	N/A	(61.6)	(61.6)	(52.7)

* Estimate

The estimated net charge for the year 2013/14 presented above has been prepared applying the amended version of IAS 19, which will be applied for the first time in 2013/14. The key changes are:

- The expected return on assets is replaced by interest on the assets calculated using the discount rate (impact of c£2.4 million).
- Running costs currently accounted for as a deduction to the expected return on assets will be reported as a separate cost.
- These changes will result in the 2012/13 result being restated with the net charge associated with the defined benefit pension scheme increasing from £0.1 million to £2.5 million.

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation are as follows:

	2012/13	2011/12	2012/13 Sensitivity	2012/13 Sensitivity £ million
Discount rate	4.6%	4.9%	+/-0.1% +/-0.05%	-/+7.0 -/+3.5
Inflation – RPI	3.4%	3.3%	+/-0.1%	+/-6.2
Inflation – CPI	2.4%	2.3%	+/-0.1%	+/-6.2

The sensitivity of the IAS 19 valuation to a 0.1 per cent and 0.05 per cent movement in the discount rate is set out in the table above.

Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £7.4 million and goodwill of £26.8 million. This relates to the International business.

The group continues to generate operating cash, with cash generated from operations of £9.3 million. Income taxes of £2.5 million were paid in the year resulting in net cash flow from operating activities of £6.8 million.

We have made further investment in our joint ventures during the year to drive the growth in International, including £1.1 million in China and £0.7 million in India.

After investing £16.2 million of capital expenditure (£12.7 million net of lease incentives received), receiving property proceeds of £2.2 million, the net debt position at the year end is £32.4 million (2011/12: Net debt of £20.1 million).

Going concern

Details of this can be found on page 41 within the corporate governance report.

Capital additions

Total capital additions in the year were £12.5 million (2011/12: £26.0 million), including £3.0 million for software intangibles and £7.8 million invested in UK stores. Landlord contributions of £3.5 million (2011/12: £3.5 million) were received, partially offsetting the outflow. Net capital expenditure after landlord contributions was £9.0 million (2011/12: £22.5 million).

Earnings per share and dividend

Basic underlying earnings per share were 6.2 pence compared to 1.8 pence last year. The board has concluded that given the cash investment required to deliver the Transformation and Growth strategy the Company will not pay a final dividend for 2012/13. The total dividend for the year is nil pence per share (2011/12: 2.0 pence per share).

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 movements in foreign 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 reported sales represent approximately 33 per cent of group sales. Total International sales represent approximately 59 per cent of group network sales. The group therefore has some currency exposure on these sales, but it is used to offset or hedge in part the group's US dollar and Euro denominated product purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

The group has drawn down £50 million on its term borrowing facility. Following the group refinancing on 11 April 2012 the group now hedges all of the floating interest rate on this term facility using interest rate swaps. These financial instruments are accounted for as a cash flow hedge with changes in the fair value of the financial instrument that are designated as effective recognised in comprehensive income and any ineffective portion recognised immediately in the income statement.

Shareholders' funds

Shareholders' funds amount to £38.8 million, a decrease of £33.9 million in the year driven largely by the exceptional provisions required for the UK property transformation and restructuring and the impairment of the investment in the Australian associate. This represents £0.44 per share compared to £0.82 per share at the previous year end.

Accounting policies and standards

There are no new standards affecting the reported results and financial position.

KPIs – Financial and non-financial

Measuring our performance

International profits

Mar-13	£42.0m
Mar-12	£34.9m
Mar-11	£27.5m

Our strategy of growing space both in new and existing markets has resulted in another year of double-digit sales and profit growth for International. Excluding Australia and New Zealand, space was up 13.5 per cent, retail sales were up 15.0 per cent in constant currency and profits were up 20.3 per cent during the year.

£42.0m

International space

Mar-13	2,347k sq. ft.
Mar-12	2,068k sq. ft.
Mar-11	1,768k sq. ft.

FY2012/13 was impacted by the closure of all stores in Australia and New Zealand. Adjusting for these closures, our International franchise partners opened 115 stores and increased space by 13.5 per cent to 2,347k sq. ft. during the year.

2,347k sq. ft.

Average length of service of store-based employees

Mothercare

Mar-13	6.4 years
Mar-12	6.0 years
Mar-11	5.1 years

Early Learning Centre

Mar-13	5.8 years
Mar-12	5.8 years
Mar-11	5.2 years

All members of store staff continue to feel a strong connection with both our brands – Mothercare and Early Learning Centre. This close connection is clear in the continued longevity of store staff, which is higher than the average for other retailers.

6.4 years

Women in senior management positions

Mar-13	49%
Mar-12	53%
Mar-11	54%

The proportion of women in senior management positions below executive committee level has reduced to 49 per cent (17 out of 35), but still remains above average. As we have reassessed our needs as a business there has been some change, and we continue to strive to offer a fair and flexible working environment that is conducive to working mums.

49%

UK profits/(losses)

Mar-13	loss of £21.7m
Mar-12	loss of £24.7m
Mar-11	profit of £11.1m

UK losses were reduced by 12.1 per cent during the year, making progress towards our goal of returning the UK to profitability by March 2015.

-£21.7m

UK operating cost reduction of £20m

Mar-13	-£8m ✓
Mar-14	-£7m
Mar-15	-£5m

Our three-year Transformation and Growth plan envisages reducing operating costs by £20 million, on an annualised basis. We said we would reduce costs by £8 million on an annualised basis for FY2012/13 and we have achieved this target.

UK store numbers

Mar-13	255 stores	196 Mothercare and 59 ELC
Mar-12	311 stores	209 Mothercare and 102 ELC
Mar-11	373 stores	212 Mothercare and 161 ELC

We have made good progress towards our target of reducing our store base to circa 200 stores by March 2015. During the year we closed 56 stores (13 Mothercare and 43 Early Learning Centre) and ended the year with 255 stores.

255 stores



Risks

Principal risks and uncertainties

The principal risks and uncertainties facing the Company may include some of those set out below. These risks and uncertainties reflect and focus on some of the group's challenges in delivering the Transformation and Growth plan, particularly in the context of the wider economic uncertainties at a macro level. It should be borne in mind that this is not an exhaustive list and that there may be other risks that have not been considered or risks that the board considers now are insignificant or immaterial in nature, but that may arise and/or have a larger effect than originally expected. Against this background, the system of internal control is designed to manage rather than eliminate risks, to reduce the impact on the group and to ensure that adequate mitigation is in place.

In order to manage risk effectively, the executive committee (see page 39) has 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. This programme ensures, so far as practicably possible, that the appropriate risk management processes are identified, controls established, residual risks evaluated and that the necessary monitoring action and risk avoidance measures taken. Elements of the programme are reviewed by the internal audit function during the course of each financial year. The process outlined above has been in effect during the period and up to the date of the approval of the accounts by the board.

	Risk	Impact	Mitigation
Financial	<ul style="list-style-type: none"> The group fails to meet the financial targets set out in the Transformation and Growth plan 	<ul style="list-style-type: none"> Potential breach of covenants contained in bank facility agreements leading to Event of Default 	<ul style="list-style-type: none"> Detailed monthly monitoring of financial performance against plan targets Alternative financing options to supplement bank facility Restructured head office and UK stores teams
	<ul style="list-style-type: none"> LFL sales in the UK do not meet expectations under the Transformation and Growth plan 	<ul style="list-style-type: none"> Poor business performance may mean that financial targets are not met Loss of supplier confidence Loss of market share 	<ul style="list-style-type: none"> Reshaped UK business team New price and value strategy supported by promotional activity and loyalty programme Direct to customer channels, including 'click and collect'
	<ul style="list-style-type: none"> Unforeseen additional cash funding to support international joint venture operations 	<ul style="list-style-type: none"> Diverts cash away from the UK business May delay UK business turnaround 	<ul style="list-style-type: none"> Joint ventures submit business plans and management reports monthly to the Company Attendance at joint venture company board meetings

	Risk	Impact	Mitigation
Financial continued	<ul style="list-style-type: none"> ■ UK store rationalisation programme becomes difficult to achieve in current market conditions 	<ul style="list-style-type: none"> ■ Greater than anticipated costs of closure ■ Reduces cash available to UK business 	<ul style="list-style-type: none"> ■ 2012/13 targets met which demonstrates a record of past performance over two years ■ Dedicated and experienced property team
	<ul style="list-style-type: none"> ■ Uncertainty in the macro economic environment – particularly the Eurozone economies ■ Fluctuations and uncertainty in exchange rates 	<ul style="list-style-type: none"> ■ Weak UK consumer confidence continues may delay business turnaround ■ Underperforming International business in affected regions ■ Increase in cost of goods impacts margin ■ Potential for increase in bad debts 	<ul style="list-style-type: none"> ■ Product range and pricing being adapted to meet customer demand ■ Strong franchise partners; close working relationship with franchisees ensures early awareness of any financial issues ■ Credit insurance in place and tested ■ Limited exposure to Eurozone economies ■ Roll out franchisee online offerings
Operational	<ul style="list-style-type: none"> ■ The UK business fails to deliver on brand standards, or react to changes in consumer demand or existing or new competitor activity 	<ul style="list-style-type: none"> ■ Loss of market share ■ Loss of sales leading to a shortfall in profits 	<ul style="list-style-type: none"> ■ Improvements being made at store level through better store operations, staff training and store standards ■ Customer satisfaction programme launched and embedded ■ Structured pricing policy and strategy ■ Product range and pricing being adapted to meet customer demand
	<ul style="list-style-type: none"> ■ International expansion leads to overexposure in certain territories 	<ul style="list-style-type: none"> ■ The group becomes vulnerable in key markets 	<ul style="list-style-type: none"> ■ Strong franchise operations work closely with international franchisees ■ Credit insurance against key franchisee recoverables in place and tested
	<ul style="list-style-type: none"> ■ Major supply chain or logistics disruption resulting from geo-political events 	<ul style="list-style-type: none"> ■ Product supply is halted or severely impacted 	<ul style="list-style-type: none"> ■ The group sources products from a number of different regions

Risks

Principal risks and uncertainties continued

	Risk	Impact	Mitigation
Manufacturing and Product	<ul style="list-style-type: none"> ■ The group fails to meet its reputation for quality, safety and integrity ■ The group fails to ensure that its supplier base operates to the appropriate standards of safety 	<ul style="list-style-type: none"> ■ Damage to brand reputation and customer confidence would impact sales 	<ul style="list-style-type: none"> ■ Significant group investment in product quality management resource ■ High standards communicated throughout supply chain ■ In-house responsible sourcing team working in Bangladesh, India and China ■ Global Code of Conduct communicated and applied through the system ■ Focus shifted to pre-despatch quality checks
	<ul style="list-style-type: none"> ■ Failure to invest properly in product innovation 	<ul style="list-style-type: none"> ■ Lack of new product and innovation would directly impact sales 	<ul style="list-style-type: none"> ■ The group maintains an ongoing investment strategy in new products ■ Launch of new products and ranges delivered in FY2012/13 with further planned launches in FY2013/14
People and Infrastructure	<ul style="list-style-type: none"> ■ Organisational change and headcount reductions lead to erosion of corporate knowledge 	<ul style="list-style-type: none"> ■ The Transformation and Growth plan falls behind schedule 	<ul style="list-style-type: none"> ■ In-depth organisational review to ensure any change is managed efficiently and with minimum disruption to business ■ Development and approval of key business objectives for all employees from top down with quarterly reviews to monitor employee performance
	<ul style="list-style-type: none"> ■ Legacy IT systems fail to meet business requirements 	<ul style="list-style-type: none"> ■ Adverse impact on performance and ability to meet key targets 	<ul style="list-style-type: none"> ■ Comprehensive IT review defined
	<ul style="list-style-type: none"> ■ Failure or increase in costs of the group's logistics or global distribution network 	<ul style="list-style-type: none"> ■ The UK business or international franchisees do not meet customer demand leading to loss in sales ■ Erosion of margin 	<ul style="list-style-type: none"> ■ Regular review and audit of distribution network ■ Strengthened and dedicated expert distribution team

Our corporate responsibility strategy reflects our mission to be the leading global mother and baby specialist. We aim to ensure that we conduct ourselves responsibly, not just for our customers but also for all those involved with getting our products to our customers and the wider communities that these people live and work in. This is reflected in the relationships we have with our stakeholders:

- Communities – parents and children
- The people who work for us
- Our suppliers who make and distribute our products
- The environment

This report aims to give an overview of our activities over the last year and gives an update on the five-year target we set ourselves at the end of 2007/08.

Highlights

During FY2012/13, Mothercare plc:

- Continued to exceed its five-year targets in building emissions, transport emissions and waste recycling
- Maintained average length of service for store-based staff at six years for both Mothercare and Early Learning Centre
- Continued to recognise diversity of talent with 49 per cent of senior managers (below board level) filled by women
- Was ranked eighth in the Reputation Institute's annual survey
- Won over 25 awards across both Mothercare and Early Learning Centre brands

Governance and target

The strategic direction of our corporate responsibility programme is managed by the Corporate Responsibility Steering Committee, which is chaired by Tim Ashby, our Group General Counsel/Company Secretary. The importance of corporate responsibility is reflected in the structure of this Committee, which consists of directors from product development, sourcing, logistics, retail operations and property. This Committee reports to the board and is supported by the corporate responsibility team.

Targets for FY2012/13

At the end of FY2007/08 Mothercare plc set itself seven targets that were to be achieved by FY2012/13 (published on www.mothercareplc.com). These targets along with their performance are set out in the table below (shaded blue).

Key performance indicators	FY2007/08 baseline	FY2012/13 performance	FY2012/13 target	Progress against target
Building energy use (m kWh)	71.2	55.2	–	–
Transport fuel used (m litres)	2.6	1.3	–	–
Transport mileage (m miles)	6.1	3.5	–	–
Carbon emissions (tonnes)	40,400	27,300	–	–
of which:				
Buildings	33,500	24,100	-15%	-28%
Transport	6,900	3,200	-20%	-54%
Packaging used (tonnes)	11,500	8,500	–	–
Packaging per £100 (kg, UK only)	20.0	17.0	-40%	-15%
Solid wooden products recycled or Forest Stewardship Council wood	Not collected	–	50% sourced	Not available
Carrier bags used (m, UK only)	17.4	9.7	-50%	-45%
Recycled waste (tonnes, UK only)	Not collected	2,900	75% recycled	92% recycled
Total fundraising (£k)	100	359	1,000	36% achieved
of which:				
Direct donations (£k)	100	59	–	–
Employee fundraising (£k)	Not collected	300	–	–

Corporate responsibility continued

Building emissions – target exceeded

We met our building emissions target in FY2010/11 and have since exceeded the target for both FY2011/12 and the current year FY2012/13. The final outcome is 13 percentage points ahead of the target we set in FY2007/08.

This was achieved in part due to the planned store closures, and the closure of our Swindon warehouse, and was also achieved despite the much colder winter this year. There was an increase in gas consumption year on year, due to the colder winter, but this was offset by a significant decrease in electricity usage, both in our stores and warehouses.

Transport emissions – target exceeded

We exceeded our target in FY2010/11 by five percentage points and have since continued to make further improvements.

Over the last 12 months, we have continued to improve our fleet efficiency, reducing the number of miles travelled transporting our product by 19 percentage points.

Taken together we have achieved a 54 per cent reduction in CO₂ emissions from our transport fleet since FY2007/08. This is attributable to consolidating our Mothercare and Early Learning Centre fleets, a reduction in store numbers, implementing new delivery schedules to increase vehicle fill and new driver training initiatives to improve fuel efficiency.

Waste Recycling – target exceeded

Over the last year, our store waste to landfill reduced from 490 tonnes to 254 tonnes. This largely resulted from the closure of smaller ELC stores, which tend to produce more waste than our larger Mothercare stores. Stores have continued to focus on reducing waste.

Waste to landfill from our distribution centres has remained static over the year. The group has continued to improve its performance, recycling 92 per cent of its waste, up from 86 per cent the previous year.

Where ongoing targets have not been achieved, they have been incorporated into new KPIs for FY2014/15. This includes packaging where, since the FY2007/08 baseline, the packaging handled has reduced by 26 per cent but not achieved the five-year target set for FY12/13.

New targets

The last set of targets were set at the end of FY2007/08 and covered the five-year period to FY2012/13.

We have set ourselves new targets that reflect our business and are in keeping with our Transformation and Growth plan that runs to the end of FY2014/15. We will be measuring our performance against seven criteria – four existing targets have been updated while three new targets have been added. For FY2014/15 we are focusing indicators on those areas where we believe we can make the most change both in the UK and overseas. The new targets are in the table below.

Key performance indicator	Objective of KPI	FY2014/15 target
Extending existing targets		
Carbon emissions from buildings	Continue to reduce carbon emissions from our buildings	5% per annum
Carbon from transport	Continue to reduce carbon emissions from transporting our products	5% per annum
Packaging	Continue to reduce the packaging per £100 of goods we sell	1% per annum
Waste	Drive up recycling of our own waste	Maintain at 90%
Introducing new targets		
Including International in targets	Extend our approach to corporate responsibility to our overseas operations	
Water in our supply chain	Look for ways to reduce water usage, particularly in areas of particular stress	
Supply chain transparency	Look further and deeper into our supply chain, improving product traceability and control	

These targets will ensure we continue to operate in a responsible manner, taking into account the communities which are affected by our operations. They will also lay the basis for future investment after the completion of the Transformation and Growth plan.

Communities – parents and children

We believe that parenting and raising children is an essential foundation for the society that we live in and that healthy babies, parents and families benefit us all. We are committed to helping parents through the work we do providing education and information to parents in the community. Our 'Born to Care' partnership with Save the Children, staff fundraising efforts and charitable donations made through the Mothercare Group Foundation highlight our commitment to this area.

Awards received

Over the last year the group received over 25 awards for Mothercare and Early Learning Centre. These awards reflect the contribution we make to helping parents and their babies. Amongst many others, we received awards for best changing facilities, best family friendly retailer, best steriliser for Innosense and best learning and developmental toy for ELC's cash register.

Mumspace stores

We now have four stores in the UK with additional facilities and space to hold in-store activities for pregnant women, parents and their children. We work with a wide range of companies and local independent teachers to provide pregnancy yoga, baby massage, free support groups for new mums, dance and music classes for toddlers. The stores are located in Edmonton, Dudley, Southampton and Leeds. In Edmonton we also have a Costa Coffee café and a Tea Monkey café in our Leeds store.

Children's play areas

Our larger stores with Mumspace have an extended play area for young children with a variety of life-size ELC Happyland themed castles, windmills and trains. The aim is to allow children the opportunity to let their imaginations go wild and play in a friendly and safe environment. In addition, we have a caterpillar reading corner for quieter times.



Baby and me events

'Baby and me' events take place in over 100 of our larger Mothercare stores at least three times a year. The store team gives essential advice on those baby products of most interest to first time parents on issues like infant car seat safety and fitting, pushchair/pram choices, sleep safety and essential nursery furniture and our expert bra measuring service. We also invite local antenatal teachers, midwives and other baby organisations to the event to advise new parents about what is available locally, and where they can get support after their baby arrives.

National Breastfeeding Week – The Royal College of Midwives and Mothercare work in partnership to promote National Breastfeeding Week every year. We work with the RCM to support midwives and help mothers get the right and most up-to-date advice about breastfeeding. Every year we actively promote Breastfeeding Week within the community and in Mothercare stores around the UK. Midwives, health visitors and breastfeeding supporters frequently take advice-stands in our stores during the week to talk to mums about all aspects of feeding and to encourage pregnant women to consider breastfeeding their babies. We encourage Midwife advice points in areas where the breastfeeding rates are particularly low. Mothercare has been a RCM Alliance Partner since 2010.

Charitable giving – Mothercare's total direct giving to charity last year was £59,000 to the Mothercare Group Foundation. In addition to this direct giving, Mothercare was able to raise around £300,000 through staff fundraising for our global charity partnership with Save the Children. This takes our fundraising total over the life of this partnership to £1,129,000, a figure of which we are all incredibly proud.

Corporate responsibility continued

People who work for us

Mothercare retains its caring culture, which is clear in the loyalty we enjoy from our staff. The average length of service for our store-based staff is high, at 6.4 years for Mothercare and 5.8 years for ELC. We have many staff members with 10, 15 and even 20 years of service.

We take equal opportunities very seriously and aim to reward and promote talent where appropriate. As a result we are proud to say that 49 per cent of senior management positions (below board level) are held by women.

In another year of significant change, Mothercare was ranked eighth in the Annual 'RepTrak Pulse 2013' survey conducted by the Reputation Institute. The study measures the reputations of over 250 companies in the UK and is part of a larger study of over 2,000 companies globally. The research indicates that customers are focusing not just on products and services, but also areas such as corporate governance and corporate citizenship.

People making our products

Responsible sourcing is a key focus for Mothercare. Our aim is to reduce the risk of poor working conditions by monitoring our supply base, gaining a better understanding of the complex issues that affect workers and working to provide better workplaces for them. Our responsible sourcing code of conduct and implementation policy is available online: www.mothercareplc.com

Our Responsible Sourcing Team is made up of eight dedicated professionals located regionally in sourcing offices who report in to the senior corporate responsible manager. The team works directly with the suppliers and factories that we source from in Bangladesh, China and India to understand the issues and help to make improvements to working conditions in the supply chain.

We ensure that all factory premises are inspected at least once a year and often our teams make additional visits as their regional location enables them to do so. Most of our suppliers own the factory premises that our products are produced in, which enables us to inspect the entire building and not just the area in which our products are manufactured.

Recent events in Bangladesh highlight the importance of these issues and whilst we were not impacted we have signed up to the Accord on Fire and Building Safety in Bangladesh to support the improvement in the safety and rights of all those employed in the manufacture of goods in that country.

In addition to the work with suppliers and factories noted above, our team works closely with SEDEX and the Ethical Trading Initiative (ETI). Our corporate responsibility team works in conjunction with third-party audit information obtained through SEDEX (www.sedexglobal.com). By using third-party audit information and our own internal team, we aim to increase the visibility we have over the supply chain, which then allows us to focus on gaining transparency and working with factories to make improvements.

The more work we do in this area, the more complex are some of the issues that we unravel. The issues are often industry-wide and are not limited to individual factories. In order to tackle these sorts of issues, we continue to be active members of the Ethical Trading Initiative (www.ethicaltrade.org). This platform enables us to have dialogue with other retailers, non-governmental organisations and trade unions, and to work together on programmes that tackle endemic issues that can't be resolved by individual retailers.

The responsible sourcing team is in the first year of implementing a five-year strategy, which aims to cement current global practices and continue its work to embed responsible sourcing in the day-to-day culture of the Mothercare business, before expanding and undertaking aspirational work in the latter years of the strategy. This strategy should allow us to maintain the high standard of our current work, whilst helping us to plan for the future. Good progress is being made against the first year targets of this strategy, and the team is about to launch a new supplier engagement programme with selected key factories that will build capacity in factory management team and allow them to improve working conditions on a day-to-day basis.

The focus of the responsible sourcing team is on the first tier of our supply base where we believe we have the greatest influence and ability to bring about change. In FY2012/13 96 per cent of our supply base was registered on SEDEX and third-party audit information was provided for 84 per cent of factories. In addition to this our in-house team visited 80 per cent of our direct supply base to offer help and guidance on non-compliance resolution.

Mothercare continues to work with other brands and retailers, through the platform of the ETI, to understand and remedy the issues found deeper in the supply chain (e.g. spinning mills, homeworkers etc). We have targeted our resources at the specific areas of spinning mills in South India and homeworkers in China, as we know that these industries have specific issues that we can begin to address by working together. In doing so, we have been able to develop methods for dealing with such issues in collaboration with others, and in our own supply chains.

Case Study – Homeworker project in North China

Moses baskets are a popular choice for new parents the world over. It is one of the first purchases made by new parents and Mothercare sells tens of thousands of Moses baskets every year, through its 1,324 stores and online in the UK and across its 60 International markets.

Moses basket making is an artisan industry and baskets are hand-woven by home workers in northern China. This artisanal skill is passed from mother to daughter in Shandong province. The weaving materials come from local farms, usually owned or worked by the families themselves. The materials are a by-product of corn production, which means basket weaving is sustainable, reduces waste and gives families in the region an extra income, particularly during the cold winter months when agricultural work is not available.

It is, however, a skill that is in decline as young people in China continue to migrate to larger towns and cities in search of better paid work. Cities like Qing Dao or Shanghai are attractive to the younger generation as they can get better paid factory work while also experiencing city living. The average age of basket weavers is 50-60, and the number of basket weavers available to make Moses baskets is declining rapidly.

Looking to ensure the continuation of this valuable industry, our responsible sourcing team worked with sourcing managers in Shanghai and local consultants ELEVATE (formerly INFAC Global Partners) to fully understand the supply chain. An important part of this work included understanding the lives of homeworkers, why they work, how much they earn and what could be done to make basket weaving more appealing.

As a result we have:

- Signed contracts with all of our suppliers, including the subcontractor and the middle men who collect these baskets from homeworkers
- Simplified the delivery routes to save time and money
- Reduced the working hours for workers at the subcontractor by over 9% and increased their pay by over 50%
- Developed a training video to show homeworkers how to weave baskets more efficiently. The average time spent weaving a basket has since been reduced by over 20%, enabling them to earn more money in less time
- Increased the price paid for the baskets, so some homeworkers are earning up to 50% more per month from basket weaving

By doing this work, we have improved the quality and the availability of baskets while also attracting new and younger workers into the supply chain. The defect rate for baskets from these homeworkers has reduced by over 50%. The impact on cash flow has been beneficial and wastage has also been reduced. This will allow Mothercare to continue buying Moses baskets from these workers for many years to come.

This project has provided a model for Mothercare to use in other areas of the supply chain, and has proved that it is possible to improve working conditions alongside commercial concerns such as quality and delivery.

“The quality of Moses baskets has really improved in 2012. The main defect areas, such as deformed baskets, broken ribs, loose weaving and size issues are much less common now, mainly due to the efforts made by both Mothercare and our supplier”.

Mothercare Sourcing Manager, Shanghai.

“I feel I worked faster than before; I can complete a basket in 10 hours in 2011, now I think I can complete a basket in 8 hours”.

Homeworker based in Linqu, Shandong Province.