# Chairman's statement

**In the last 12 months significant progress has been made both in the transformation of Mothercare and delivering improved profitability for our shareholders.**

**Alan Parker CBE**
Chairman

There has been a further reduction of losses in the UK driven by stronger trading and margin improvement. Our International business has had a more difficult year with challenges in consumer markets and foreign exchange. We have worked together with our International partners to reduce the impact on sales and profitability.

Proceeds from the successful rights issue completed in October 2014 have been used to reduce debt and invest in UK retail stores. Customers have responded positively to the modern store format with sustained year-on-year sales growth. This investment programme will continue in the year ahead to include a major improvement in the Group's IT systems infrastructure.

The new executive leadership team, led by Mark Newton-Jones, not only improved operating performance, but also laid the foundations for future growth. There is now a redefined brand proposition and product improvements based on a clear understanding of target customer needs. We still have much to do. However, I believe the actions taken over the year are significant progress with a high proportion of the benefit still to come.

In January, Daniel Talisman was appointed General Counsel and Group Company Secretary, following the resignation of Tim Ashby. After 35 years with the Company, Jerry Cull has decided to step down as Managing Director of International. Jerry was responsible for the growth of our International partner network from very small beginnings. Jerry will continue to support the business in the year ahead while Mark Newton-Jones takes over direct responsibility for our International regional managing directors.

There were no Board changes during the year. I would like to recognise the collective experience of both the executive and non-executive directors, which has proved invaluable in navigating the challenges of the previous 12 months. A Board evaluation was undertaken which confirmed that non-executive members worked both well together and with the executive members whilst remaining independent in the spirit of good governance.

I would like to thank everyone involved in our two great brands of Mothercare and Early Learning Centre around the world, in our stores, support centres, sourcing offices and suppliers for their hard work and enthusiasm.

Finally our International partners are a powerful asset to our business and we recognise that their local insight and commitment to our brands give us a competitive edge globally. We look forward to working together in the next 12 months on the strategy for future growth.

Alan Parker CBE
Chairman, Mothercare plc

# Our vision is to be the leading global retailer for parents and young children.

The Mothercare business model describes how we operate and create value for shareholders, our customers and other key stakeholders.

## Our resources

Shareholders' equity
£89m

Cash in bank
£14m

Employees
5,346

International partners
45

Suppliers
1,422
with orders worth £595m

## Relationships

## What differentiates us

Trusted own brand

Exclusive product

Expertise and service

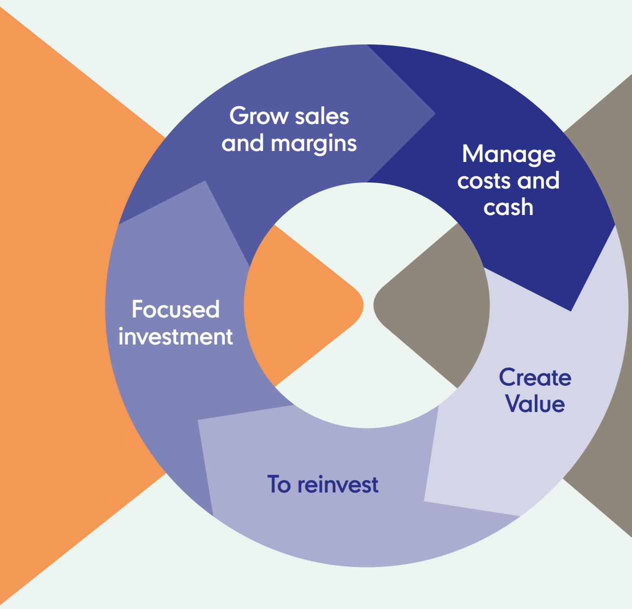
Understanding customers
2.4m
customers on database

Trusted own brand
Innovation, quality and style

Effective logistics
6 DCs
2 Hubs

Efficient sourcing
17 countries
7 offices

Full service vendors
621 suppliers
36 countries




## How we create value

**For customers**

£1,149m
Worldwide sales

**For International partners**

£690m
Sales

**For employees**

£71m
Total pay and benefits

**For social**

£15m
Total tax contribution (TTC)

**For suppliers**

£595m
Total payment

# Value capture

## The products we offer

**Home & Travel**

175 brands
3,200 options

**Clothing & Footwear**

16 brands
5,100 options

**Toys**

80 brands
2,650 options

## How our customers buy from us

**UK Stores**

74 in town
96 out of town

**UK online**

37% of UK retail sales

**International**

12 countries online & 1.6% of international sales
1,310 stores

# Chief Executive's review

## Two years into our turnaround, we have delivered 51% growth in underlying PBT and our first statutory profit in five years.

**Mark Newton-Jones**
Chief Executive

1. Become a digitally led business
2. Supported by a modern retail estate
3. Offering style, quality and innovation in product
4. Stabilise and recapture gross margin
5. Running a lean organisation while investing for the future
6. Expanding further internationally

For further information see pages 12 and 13

### Overview

We have made solid progress in each of our six strategic pillars in this past year as we continue to transform and modernise our business. In the UK almost 40% of space is now in the new and much improved format. We have invested in product, service, systems and the team which is delivering a significantly improved experience for our customers both in store and online. Like-for-like sales are up for the second year in a row and margins, after five years of decline, are up 70 bps reflecting our improved product quality and design, better buying negotiations and a focus on full price sales. Combined, this has resulted in a 64% reduction in losses compared to the previous year and we are on track to return the UK to profit.

International has been more of a challenge, but we remain focused on building a strong and more resilient business for the future. Our plan has been to fix the UK business by transforming it in to a modern and professional retailer and, by doing so, make it more exportable. We are now taking the lessons learned and the new practices from the UK into our International markets which will improve our partners' businesses and indeed the management of our brand globally. Despite the challenges faced in our International markets, where sales and profit have been impacted by economic and currency headwinds, we are still opening new space. We have also recently completed a full review of our International operations, looking for ways in which we can improve and strengthen the business. We believe we can work even more closely with our partners to support their businesses and strengthen the franchise model, ensuring that we will be best placed to benefit when market conditions improve.

I'd like to thank our teams and our International partners for all of their effort in this past year, as we transform and modernise our business.

We have made further progress against each of our six strategic pillars. Overall the business is on a firmer footing and we are positioning ourselves well for the future.

c40%

UK space in new format

66%

Product sold at full price

1 **Become a digitally led business**
- Online sales up 15%, accounting for 37% of UK retail sales (FY2014/15: 32%). In-store online ordering continuing to grow, up 25% year-on-year and now accounting for 41% (FY2014/15: 38%) of all online sales
- Mobile now 81% of online traffic and 58% of online sales for customers ordering from outside our retail store network

2 **Supported by a modern retail estate**
- 56 UK stores, or almost 40% of UK space, in new and much improved format
- Closed 19 underperforming stores, refurbished 47, resited four and opened two new stores in the UK

3 **Offering style, quality and innovation in product and great service**
- Improved style, quality, innovation and design for all three product categories
- Launched 'Smile' by Julien Macdonald, our first designer collaboration

4 **Stabilise and recapture gross margin**
- Margin up by 70 bps driven by less discounting and improved buying
- Significantly lower levels of stock going into sale with 66% of product sold at full price compared to 57% two years ago

5 **Running a lean organisation while investing for the future**
- Continued tight control of costs, despite need to invest selectively in some areas
- £34 million of free cash generated, before capital expenditure

6 **Expanding further internationally**
- Space up 4.6% with 1,310 stores in 57 countries as a net 37 new stores opened
- Closing stores in unprofitable markets including Honduras, Slovenia and Uzbekistan

## Group results

We now trade from 1,480 stores in 58 countries across the world. Global retail space was up 0.6% year-on-year at 4.6 million sq.ft., despite challenging market conditions in many of our International markets and continued planned store closures in the UK. In the UK space was down (6.4%) and we ended the year with 170 stores and 1.6 million sq.ft. of retail space.International continued to grow space, which was up 4.6% and we ended the year with 1,310 stores and 3.0 million sq.ft. of retail space.

| | 52 weeks to 26 Mar 16 £ million | 52 weeks to 28 Mar 15 £ million | % change vs. last year |
|---|---|---|---|
| Underlying International profit | 40.3 | 45.9 | (12.2)% |
| Underlying UK loss | (6.4) | (18.0) | +64.4% |
| Corporate expenses | (8.1) | (8.6) | +5.8% |
| **Underlying profit from operations** | **25.8** | **19.3** | **+33.7%** |
| Underlying net finance costs | (3.2) | (5.0) | – |
| Share-based payments | (3.0) | (1.3) | – |
| **Underlying profit before tax** | **19.6** | **13.0** | **+50.8%** |
| Exceptional items | (10.2) | (32.0) | – |
| Non-cash foreign currency adjustments | 1.2 | 6.9 | – |
| Amortisation of intangibles | (0.9) | (1.0) | – |
| **Reported profit before tax** | **9.7** | **(13.1)** | **–** |

# Chief Executive's review
continued

Worldwide sales were down (4.5%) at £1,149 million with total UK sales up 0.4% and total International sales down (7.4%). Group sales were down (4.4%) at £682 million, reflecting the gain of 0.4% in the UK and more than offset by the (13.0%) reduction in receipts from our International partners as a result of the adverse currency impact and destocking in some key markets.

Despite the decline in sales, underlying Group profit before tax was up 51% at £19.6 million. The UK reduced losses by 64% delivering a loss of (£6.4 million), while International profits were down (12%) at £40.3 million. Other Group expenses were down (5.8%) during the year with corporate costs of (£8.1 million), finance costs of (£3.2 million) and share-based payments of (£3.0 million).

Non-underlying costs were significantly reduced with a charge of (£10.2 million) for exceptional items, a credit of £1.2 million for non-cash foreign currency adjustments and a charge of (£0.9 million) for amortisation of intangible assets. As a result we ended the year with a reported profit before tax of £9.7 million compared to a loss in the previous year (FY2014/15: loss of (£13.1 million)).

Our balance sheet remains strong with a net cash balance of £13.5 million (FY2014/15: £31.5 million) after investing £39.2 million in the business over the year.

## UK

In the UK we have made significant progress over the last year with total UK sales up 0.3% at £460 million and UK losses reduced by 64% at (£6.4 million).

We now have 56 stores in the new and significantly improved format, which along with the improvements in product and service (both in-store and online), have contributed to the results this year. We are now confident in our approach and will continue to roll out the new store format to the rest of the UK store portfolio. The new and improved format will also be adopted by our International partners for both new store openings and refurbishments of existing stores.

| | 52 weeks to 26 Mar 16 | 52 weeks to 28 Mar 15 | % change vs. last year |
|---|---|---|---|
| UK like-for-like sales growth | +3.6% | +2.0% | – |
| UK online sales | £159.4m | £138.4m | +15.2% |
| UK retail sales (including online) | £426.1m | £425.7m | +0.1% |
| UK wholesale sales | £33.6m | £32.4m | +3.7% |
| Total UK sales | £459.7m | £458.1m | +0.3% |
| Underlying loss | £(6.4)m | £(18.0)m | +64.4% |

**Become a digitally led business**

Online sales were up 15% at £159.4 million with in-store online sales via iPads now accounting for 41% of the mix. This continued level of growth means online sales now account for 37% (FY2014/15: 32%) of UK retail sales, which is significantly above the UK average of c18%.

Our target customers are digitally enabled millennials who use their mobile devices whilst out and about to browse merchandise, review content, read reviews and purchase product. Our focus on content and enhancing the customer journey is helping to support conversion rates. Mobile now accounts for 81% (FY2014/15: 70%) of online traffic and 58% (FY2014/15: 53%) of online sales for customers ordering from home or outside our retail store network. Click-and-collect remains an important delivery option for our busy customers and represents about a third of all online orders placed.

**Supported by a modern retail estate and great service**

Our store network has seen a step change over the last year. We closed 19 underperforming stores (13 Mothercare and six ELC), refurbished 47 stores, resited four and opened two new stores. Nearly 40% of retail space in the UK is now in the new, modern and much improved format.

New stores have clearly marked departments. In Clothing & Footwear we have sections for Maternity and Newborn. In Home & Travel we have departments for Car Seats, Pushchairs, Feeding and Nursery Furniture. ELC also received a makeover. The new departments make it easier for customers to navigate around and browse our stores and locate the products that meet their needs. Our larger stores have coffee shops and soft play areas, which are helping to increase dwell times. These facilities are increasingly used by our customers as somewhere to meet like-minded mums and dads and relax over a coffee while their toddlers have a run around in a play zone.

Whilst only a few of our stores have been trading in the new format for more than a year, we are pleased with their performance since refurbishment. Early indications are that they are largely performing in line with their business plans. There are however a small number of stores that are not meeting expectations and we have been able to identify the cause and put in place remedial action plans while also learning from these for future refurbishments.

As a result of these changes 56 of our 170 stores (162 Mothercare and eight ELC) or nearly 40% of UK retail space is in the new format. We are also continuing to migrate our estate to larger stores and ended the year with 96 out-of-town Mothercare stores, 66 Mothercare in town and eight ELC in town stores with 121 ELC inserts within Mothercare stores. As a result our out-of-town stores now account for 75% of UK space.

Whilst our strategy of closing underperforming stores reduced UK space by (6.4%) year-on-year and reduced UK sales by (£14 million), it contributed positively towards the overall performance of the UK by reducing UK losses by £3.5 million.

75%

UK space in out-of-town

+15%

UK online sales growth

**Offering style, quality and innovation in product**
Improving stores without a similar improvement in product wouldn't deliver the sorts of results we are seeing. The teams have been busy over the last year upgrading our style, quality and value for money.

In **Clothing & Footwear,** we have continued to work with brands to sit alongside our own in-house designed product. The branded product has good sell through rates at full price and also helps our range architecture in the 'Best' category of Clothing & Footwear as we improve our own ranges. In our own designed product we have successfully moved from four phases of product each year to seven – introducing more newness to the customer offer.

In 'Newborn', an area of strength, we increased the level of Special Occasion product which also helped increase our gift sales both in store and online. These ranges have higher than average selling prices. In 'Maternity', another area where we have traditionally been strong, we reacted to customer feedback and introduced a range of Maternity Essentials at entry price points while also adding brands like 'Ripe' and 'Hotmilk'. In addition, in our refurbished stores, we have introduced discrete Maternity Departments with a boutique feel to differentiate the department and improve the display of product. Again the customer response has been encouraging and we will continue to work with our customers to offer them the products that they need at this important time in their lives. By upgrading our quality and style, we have migrated our ranges such that 21% of our own brand product is now in the 'Best' category compared to just 11% two years ago. The addition of 'Smile' by Julien Macdonald, an occasion wear range and our first designer collaboration, gives this transition further impetus.

In **Home & Travel** we continued to work with our suppliers to increase the level of exclusive product and offers for our customers. At the same time we have invested in our own brand ranges with products like our first own brand ISO fix car seat and the award-winning XSS Pockit stroller weighing less than 4kg and folding down to just 34cm by 14cm (Junior Design Award for Best Lightweight Buggy: October 2015). Our in store and online product presentation took another step change with the creation of shop-in-shops, giving a more boutique feel in store and through brand stores online. Our store staff are using iPads effectively and have continued to improve service levels for customers. In some of our stores we are seeing up to half of Home & Travel sales originating from iPads in our advisers' hands.

In **ELC Toys** our work has focused on improving the ranges and introducing more newness, going back to our heritage of educational toys. Brand additions, including Mellisa & Doug and LeapFrog, have helped towards this goal. We now have 17% of sales coming from brands compared to 13% a year ago and for peak trading we had 48% of products as new compared with just 32% in the previous year.

**Stabilise and recapture margin**
It is pleasing to see the results of all of the work we have done in improving our product and controlling the markdown and promotional activity. Following five years of significant margin decline, we were able to stabilise margins in FY2014/15. Our continued focus on both buying and reducing discounting has resulted in a strong out-turn in FY2015/16 with margin up 70 bps. This is within our stated range of 50-100 bps improvement in the year.

# Chief Executive's review
continued

+22%

International online sales growth

We would not have been able to achieve this result had it not been for the hard work of all of our teams and our unrelenting focus on product and stock levels which allowed us to increase full price sales. Compared to two years ago, full price sales have increased by nearly 10% in total with clothing sales at full price improving nearly 15%.

### Running a lean organisation

Despite the significant investment in the business, we have not lost sight of cost control. Whilst costs were up in certain areas as we invested in the future, overall we were able to take £1.8 million of costs out of the business. In particular, we have been able to deliver reductions in areas like rent, contracts and some salaries. We have also invested in the key areas of marketing and product, in particular to strengthen our capabilities in digital, buying, merchandising and design.

## International

### Review of International

The recent macro-economic challenges across our International markets have led us to review our International business model in more detail and, after extensive analysis, we firmly believe that the franchise model is still the appropriate strategy, being low risk, capital light and scalable. However we recognise that in the past the business has been managed as the International division of an essentially UK business, and to some degree at arm's length, with a relatively loose operating framework. We recognise that this needs to change and as such we aim to build closer ties with our partners to become a truly global business, with the UK seen as a division of the whole. We are working with our International partners to increase collaboration between ourselves as franchisor and them as franchisees, sharing best retail practice but also developing better services for them in buying, merchandising, digital, marketing and training.

Our progress in the UK has given confidence to our partners that we are developing a more modern and professional business to franchise. We have invested in the International team, with three Managing Directors each with regional responsibility, to provide more depth. Importantly we have also extended the responsibility of the Executive Committee to include International in their remit. Whilst Jerry Cull will be stepping down as Managing Director of International, he will continue to be onboard supporting us with his knowledge and experience as we progress with our strategy in International.

### International performance

Our International markets have been faced with ongoing macroeconomic headwinds for some time. The weaker oil price is now beginning to impact consumer sentiment and demand in the Middle East, while China has also seen a slowdown in consumer spending as GDP growth has slowed.

| | 52 weeks to 26 Mar 16 | 52 weeks to 28 Mar 15 | % change vs. last year |
|---|---|---|---|
| International like-for-like sales growth | (4.5)% | +5.6% | – |
| International retail sales: constant currency | (1.4)% | +12.4% | – |
| International retail sales: actual currency | (7.4)% | +2.1% | – |
| International retail sales | £682.9m | £737.3m | (7.4)% |
| International wholesale sales | £6.7m | £8.1m | (17.3)% |
| Total International sales | £689.7m | £745.4m | (7.5)% |
| Underlying profit | £40.3m | £45.9m | (12.2)% |

Currency devaluation has also had an adverse impact, particularly in important markets like Russia where the rouble has devalued significantly and so had a material impact on the cost of goods and our profits in sterling. Despite these challenges, our International partners have looked to strengthen and grow their store portfolios where appropriate whilst also closing underperforming stores. Equally our partners are investing to put the foundations in place to build their digital capability, either in the form of a traditional website or, in the less mature online markets, by building a database.

Additionally, we are working with our International partners to ensure the trading approach is appropriate for current market conditions including de-stocking where necessary to ensure that old stock is cleared to create open-to-buy for our new improved ranges. By looking to strengthen our International business in this downturn, we believe we will be well positioned for a stronger recovery when market conditions improve.

**Expanding further internationally**
We are working with our partners to take a more proactive approach to space growth, exiting where we see issues manifest and growing where we see opportunity. As a result we believe that we are laying the foundations for a more robust business. During the year we closed 92 stores, reducing space by 214,387 sq.ft., while at the same time opening 129 stores and increasing space by 346,548 sq.ft. On a net basis space was up 4.6% with 37 stores and 132,161 sq.ft. of space added during the year. Like the UK, our International stores are now migrating to a larger format and will continue to do so over the next few years as we replicate the best learnings from the UK.

International like-for-like sales were down (4.5%) year-on-year with Europe, including Russia, the only one of our four regions in growth. International sales in constant currency were down (1.4%) with all but the Middle East in growth. Whilst growth in the Middle East slowed over the course of the year, the region saw a marked slowdown during the last quarter as oil prices began to impact consumer confidence. With currency moves continuing to have an adverse impact, International sales in actual currency were down (7.4%) at £683 million, despite beneficial currency moves from the Middle East and to a lesser degree Asia.

Wholesale sales were down at £6.7 million resulting in a decline of (7.5%) in total International sales to £690 million.

International profit was down (12.2%) at £40.3 million, with adverse currency moves, particularly the rouble, having a £1 million impact for the year and cost recovery also being weaker with lower volumes of product to our International partners. International remains an important and significant part of our Group business and now accounts for 66% of worldwide space and 60% of worldwide sales.

**Outlook**
In the UK, we are making solid progress against our strategic pillars and expect to see further improvement in the year ahead. Online sales growth remains strong and is supporting like-for-like sales and total UK sales growth. We will continue to invest in digital, our stores, improve product and upgrade service and systems. Together these initiatives should deliver further improvement in UK profitability in the year ahead.

Our International businesses will continue to face the challenges of economic and currency headwinds in their markets. However, we are continuing to build these businesses with our partners, investing in stores and online and exporting the lessons learned from our successes in the UK. Mothercare is a global brand and by working more closely with our partners we will operate as a global business with the UK a division of the whole.

Whilst we recognise that there is still much to be done in the transformation of our Group, we have made good progress overall and our vision remains clear – to be the leading global retailer for parents and young children.

Mark Newton-Jones
Chief Executive Officer

# Our strategy

**The birth of a new baby is a life-changing event which brings pure joy, but it can also be a scary time for new mums and dads. That's where we come in. Mothercare is a haven for support, advice, guidance and help – somewhere to draw strength from. So we are focusing our energy on uniting mums and dads to take on parenting together.**

We have redefined what Mothercare stands for by talking to our customers to better understand their needs and aspirations.

OUR VISION ▶ **The leading global retailer for parents and young children**

OUR ROLE ▶ **Uniting mums and dads to take on parenting together**

OUR STRATEGY ▶ **Six strategic pillars**

**Four foundations**

OUR VALUES ▶ Make it better | Make it happen | Do it Right

# Six strategic pillars

Our step-by-step strategy

## 01

**Become a digitally led business**

## 02

**Supported by a modern retail estate**

## 03

**Offering style, quality and innovation in product**

## 04

**Stabilise and recapture gross margin**

## 05

**Running a lean organisation while investing for the future**

## 06

**Expanding further internationally**

# Four foundations

### Modern Systems

Robust and reliable systems are the backbone of a modern business. We are investing appropriately to ensure our teams have accurate and timely information on which to base critical business decisions.

### Infrastructure

An easily scalable warehouse and supply chain are essential to ensure stock is in the right place and at the right time for our customers both in the UK and for our International markets, whilst also allowing us to manage stock levels tightly.

### People

Our people are our biggest asset. We have a clear set of values and behaviours for our employees and are investing in their futures through targeted training and clear standards. At the same time we recognise achievement through promotion and cross-departmental secondments.

### Governance

Our governance structure puts in place a series of processes which ensures that the appropriate checks and balances are embedded to deliver our transformational change programmes in the right way. We want to give our people the tools to work within an efficient, moral, legal and ethical framework.

# Become a digitally led business

01

Zapp codes introduced in Spring/Summer 2016 catalogue

## ONLINE PENETRATION

| 1.6% £11m | 37.4% £159m |
|---|---|
| of International retail sales | of UK retail sales |

## Our customers are digitally enabled and have responded well to our improved online experience, which is optimised by device. Online sales are up 15% in the UK and 22% internationally.

**Gary Kibble**
Global Brand and Marketing Director

**Our omni-channel customers**
Our interaction with our customers is increasingly omni-channel – be it through our stores and catalogue or via our customers' desktop/laptop or tablet/mobile phone. A single transaction can often touch several or even all of these channels making their experience of Mothercare omni-channel, particularly when you consider that our customers can choose to take delivery either in their homes or at one of our stores. Online accounts for 37% of UK retail sales, with mobile becoming ever more important now that we have over 1,000 iPads in stores. Over 80% of customer traffic is from a mobile device, which converts to nearly 60% of online sales.

We recently launched Augmented Reality (AR), which allows us to give additional content, through product information, photos, video and customer reviews, by simply using a mobile phone to scan the Zapp code (bar codes). We started with 46 Zapp codes in our Spring/Summer 2016 catalogue and will be expanding its use over the months ahead with more codes and across all channels – store, catalogue and online.

**Enhancing our customers' web experience**
We now have 2.4 million active customers who appreciate that our product has four to five photos on average with at least one video and real customer reviews to help in their decision making process. Our customers can move seamlessly from product to product, while also looking at customer reviews, photos, videos and product information. We are continually looking to improve our customers' experience and will be upgrading our website during the year, which will greatly improve its look and feel, functionality, navigation and robustness.

**Our brand and what we mean to customers**
Our customers come to Mothercare looking not just for product but also guidance on how to look after and care for both themselves during pregnancy and their new babies. Modern mums and dads are increasingly turning to new parents in a similar place to themselves for advice and support. At Mothercare, we find that we can play a uniting role by welcoming new mums and dads to the club whilst also giving them a place to meet, chat and seek out advice – both online and in our stores, some of which include coffee shops and play areas.

**See KPI**
Online sales 01

# Supported by a modern retail estate


02

# 37.1%

of space in new and improved format

# +3.6%

like-for-like sales growth

**UK space**

| | | |
|---|---|---|
| 2016 | 1,552k sq.ft | (6.4%) |
| 2015 | 1,658k sq.ft | (4.6%) |
| 2014 | 1,737k sq.ft | (3.8%) |

## Our new store format is reinvigorating the business – giving customers a significantly improved experience across an array of goods and services.

**Matt Stringer**
Managing Director, UK

### Improved in-store shopping experience for customers

We have, over the last year, refurbished 47 stores and opened an additional six stores in our new improved store format. These stores contain new equipment, modern fixtures, clear signage and a strong digital presence allowing us to showcase our critical departments – Maternity, Newborn, Car Seats, Pushchairs, Nursery Furniture and ELC – better than ever before to our customers.

Our larger stores offer coffee shops and soft play areas to entertain mums, dads and children, which encourages longer dwell times. We have invested heavily in iPads to enable our store colleagues to offer our extended range of products to customers and utilise improved online content to enhance customer service. Stock management disciplines, including product availability, have been sharpened by investment in hand held terminals.

UK store performance is improving as a result of our refurbishment programme and elements of this are being implemented in our International business.

### Service to meet customer needs

Our growing capability in stores is an integral part of our plans to serve customers more seamlessly as they shop across Mothercare channels. Taking customer details in the store allows us to contact them with appropriate communication via our Customer Relationship Management (CRM) activity, reflecting their needs through pregnancy and parenthood. Products viewed online can be demonstrated in stores and then extended product ranges and a complete colour palette can be shown via an iPad and customer reviews accessed before a purchase is made.

### National coverage

Our chain of 170 stores and our online capability give us the ability to project the complete extended range nationwide. There is growing fulfilment via our collect-in-store service, driving further footfall into stores and now served by designated areas in most of our refurbished stores. The powerful combination of improved goods and services is being welcomed by landlords who are coming forward with attractive sites for new or relocated stores. The new stores which have opened this year in Manchester, Cribbs Causeway (Bristol), Newport, Norwich, Bromborough and Lisburn (Northern Ireland) are testament to this, with a pipeline of further opportunities to extend our reach next year.

**See KPI**
UK store estate invested in 02

### Toys

Toys for baby and toddler account for c40% of sales in Toys, compared to the market generally at c10%. We have invested in this category and in particular have focused on the outdoor category, helping children with coordination, dexterity and social skills. We have added more branded products to our ranges, which now account for 17% of UK sales and 14% of International sales with brands like Mellisa and Doug and LeapFrog represented in our product mix.

# Offering style, quality and innovation in product

### Clothing & Footwear

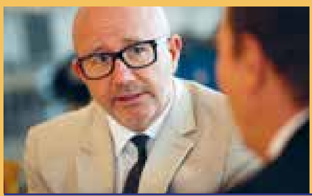
We listened to our customers and adjusted our ranges. We now have 20% of our own brand clothing ranges in the 'Best' category, compared to 11% a year ago. In so doing, we increased the number of options for 'Little Bird' by Jools Oliver and 'Baby K' by Myleene Klass while also introducing 'Smile' by Julien Macdonald. The 'Peter Rabbit' range is another good addition to our product offering in the 'Best' category with matching product across Clothing & Footwear, Home & Travel and Toys. We relaunched our 'My First' range with upgraded fabric and style, and it now complements our 'Best' category product as a gifting option albeit at the 'Better' pricing level.

In Maternity, where we retain a strong market position – particularly for essentials, we have upgraded our ranges and improved our fashion credentials. Increasing the contribution from brands like Envie de Fraise, Mamalicious and Hotmilk has helped support the upgrades brought through on our own brand, Blooming Marvellous.

# 03

## Home & Travel

Over the last year we increased the number of brands in our pushchair and car seat ranges, which resulted in an increase in our 'Better' and 'Best' categories to over 80% of options in Home & Travel. Our investment in our own brand has seen its contribution increase to c40% of all Home & Travel product and includes cutting edge technology like our own ISO fix car seat and the ultralight XSS Pockit Stroller. Exclusivity remains a focus particularly in branded product now accounting for 72% of sales. This in turn helped us increase full price sales in this category to over 60% compared to just over 50% two years ago.



**Karl Doyle**
**Global Product Director**

We have, based on customer feedback, made further improvements in product offering across all three categories, focusing in particular on our heartland – 0-2 year olds. Working with our supplier base, we have invested in design, quality, fashion and durability, whilst maintaining our position as a full price retailer and keeping sight of profitability. We continue to take great care ensuring our product is responsibly sourced and extending our audits to include full service suppliers, which means our entire supplier base is now audited.

**See KPI**
Product mix
03

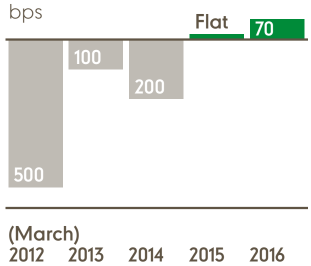
# Stabilise and recapture gross margin

Core to our strategy is our plan to stabilise and then grow margin in the UK. We achieved the first part of this plan in FY2014/15 by delivering a gross margin that was flat on the previous year and in FY2015/16 started on the second part of the strategy with a 70 bps gain. We are at the beginning of this process and are working with our suppliers to deliver additional benefits for all our stakeholders – shareholders, customers and suppliers, amongst others.

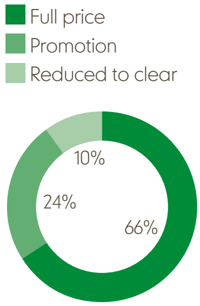
Working through our critical path we have been able to simplify our buying practices to include fewer suppliers whilst also giving suppliers greater volumes. We have done so while ensuring improved efficiency and accuracy, which again helps to enhance our margin. Increasing the number of phases of product into stores has also required a much tighter control of stock to ensure limited end-of-season inventory. Over the year, we have grown full prices sales whilst maintaining a tight promotional calendar, discounting decisively and deeply where required for our end-of-season sale.

Our focus over the year ahead will be to continue to maintain a tight control on stock, increasing full price sales while also investing more in the core product for our customers.


## UK margin




## UK product



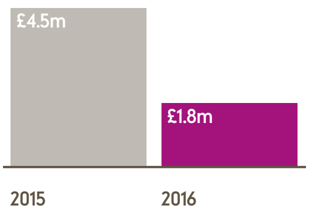

See KPI
UK margin
04

# Running a lean organisation while investing for the future

It is our intention to maintain a tight control on costs despite the significant investment currently going into the business. Over the last year we reduced operating costs across the business by a further £1.8 million, building on gains made in the previous year. In particular, we were able to reduce our rental bill by £3.6 million (or 7.5%) and reduce our bill for wages and salaries by £4.2 million (or 5.9%) despite upward pressures in some areas like marketing and departments like buying, merchandising and digital.

**See KPI**
Running a lean organisation 05

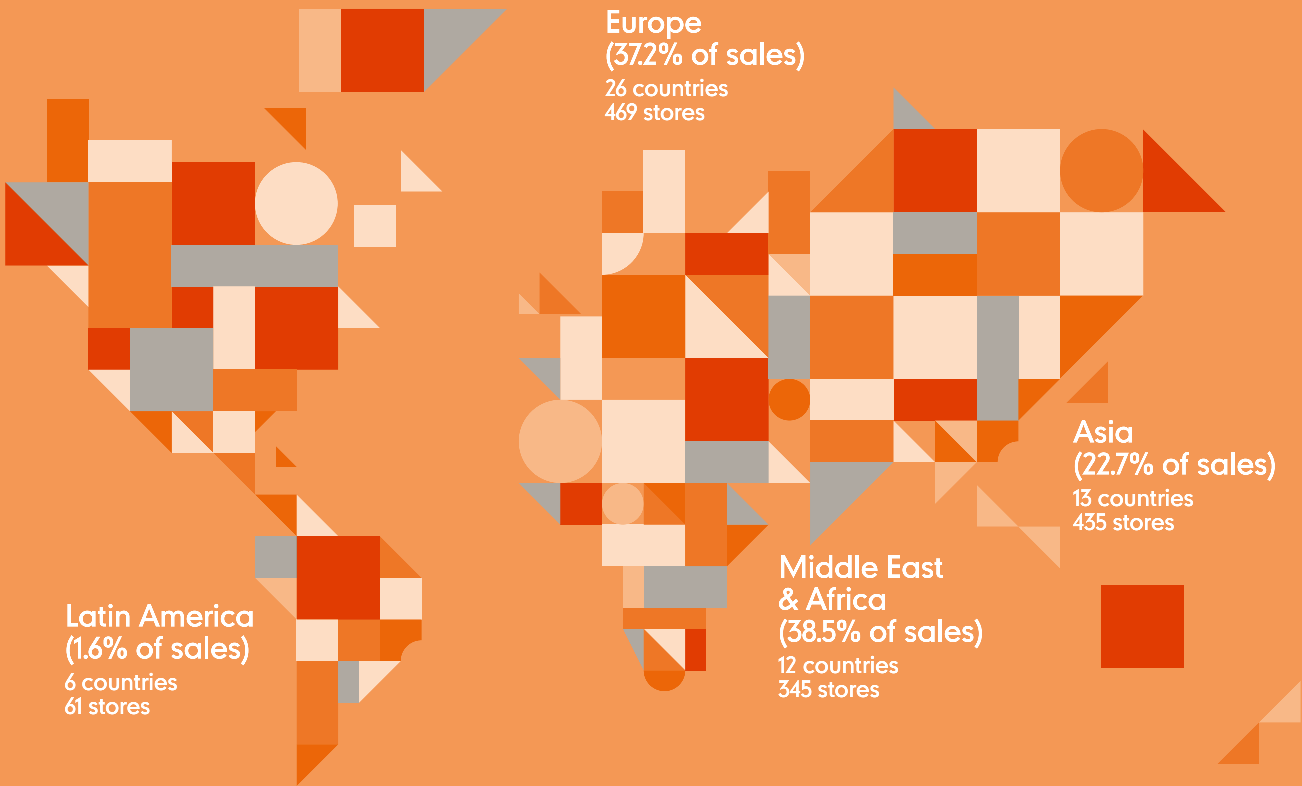
**Reduction in operating costs (year-on-year)**




# 06


This has been a challenging year for our International business, with many of our International partners facing economic and currency headwinds. Despite these challenges we have preserved profitability, whilst also evaluating our strategy.

# Expanding further internationally




**Diversified store portfolio**
Our partners operate in 57 markets and have over 1,300 stores of varying sizes to fit with the needs of local customers. We would normally expect to see some level of stability in overall performance as a result of this diversification. However, many of our markets are dependent on oil prices and with the added pressure from currency devaluation, we have seen many more markets adversely affected but with good underlying opportunity.

**Opportunity for further growth**
International remains a significant part of our global business with 66% of space and 60% of worldwide sales whilst also contributing very meaningfully to profit. Our International partners remain committed to our brands and have continued to develop their businesses despite the ongoing headwinds. Space was up 4.6% with some degree of rationalisation of underperforming space, similar to the strategy adopted in the UK, albeit on a much smaller scale. We continue to believe that there remains opportunity for growth, with many of our markets still far from maturity.

**Learning from the UK**
Our partners have taken great interest in the developments in the UK – product, store format, online and CRM usage of data. With nearly 60 stores now in the new format in the UK, our International partners are looking to incorporate some of the learnings from the UK with the first new format store opening in Dubai. Product and service have also moved on significantly and stores are now taking on more newness and exploring the opportunity for online sales, which remains small but offers significant opportunity.

**See KPI**
International growth 06

# KPIs
## Measuring our performance

**The Mothercare KPIs are aimed at measuring our performance against each of our six strategic pillars.**

### 1 Online sales

**UK**

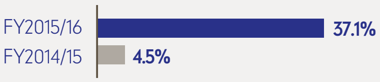

£159.4m
+15%

**International**


£11.0m
+22%

### 2 UK store estate invested in

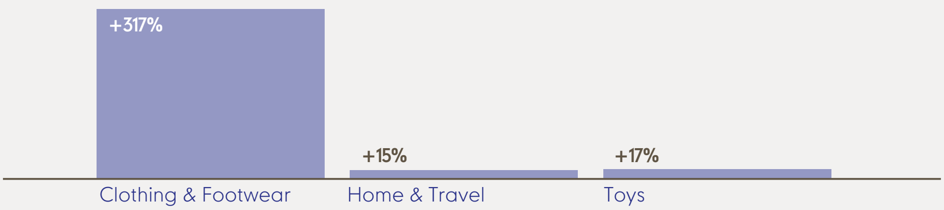
**UK**




37.1%

### 3 Product mix

**Growth in branded product mix**






## 4 UK margin

UK


+70 bps

## 5 Running a lean organisation

Inventory days cover


54 days

## 6 International growth

Constant currency sales growth


-1.4%

# Risks
## Principal risks and uncertainties

Mothercare operates in an environment where understanding and managing risk is of overriding importance to our brands. Our attitude to risk is all inclusive and is designed to permeate throughout the organisation.

The Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of significant risks, it is willing to take in achieving its strategic objectives.

### Our Approach to Risk

The Audit and Risk Committee has full responsibility for overseeing the effectiveness of sound risk management and internal control systems and processes. The Executive Committee is responsible for delivering the Company's strategy and managing reputational, financial and operational risk, and the internal risk management process has been reinforced through the Risk Committee which acts as a forum to monitor and manage risk processes and to assess and identify any emerging risks through horizon scanning. The Company has set out clear strategic objectives aligned to the six pillars. Risks are considered against each of the six pillars:

- Become a digitally led business;
- Supported by a modern retail estate;
- Offering style, quality and innovation in product;
- Stabilise and recapture margin;
- Running a lean organisation while investing for the future; and
- Expanding further internationally

### Risk Management Process

Mothercare evaluates risks by determining the 'impact' of a risk event and the 'likelihood' of the worst case scenario occurring. Risks are then evaluated, senior management owners assigned and appropriate mitigations put in place. The diagram below explains the key steps:

## Risk Committee

The Risk Committee meets monthly with senior executives from key departments. In addition, the Committee is empowered to call upon any experts when necessary. Horizon scanning and the introduction of any emerging risks are agenda items. They are given sufficient time to fully explore any implications to the business the risk may have, possible mitigating actions and whether to escalate the risk to the Executive Committee.

## Executive Committee

The Executive Committee places risk on the agenda every quarter to debate Principal Risks and Uncertainties and defines any movement in risk score, taking into account the assessment given by the Risk Committee. Any risk that is not mitigated adequately by management action planning is returned to the Risk Committee for further evaluation and is allocated to the appropriate senior manager for additional process improvements to lessen the risk. The Executive Committee also ensures that delegation of authority is appropriate for all senior leadership team (SLT) members to discharge their responsibilities around the management of risk.

## Board

The Board has overall responsibility for risk. In conjunction with setting the appetite for risk within which framework the Group can operate, the Board challenges the Executive Committee, through the CFO, to continually evolve risk management and governance in the business. In addition, the Board evaluates annually the Group's risk management strategy to ensure industry best practice is being followed.

The Board's appetite for risk can be determined as follows:

| Risk Appetite | Type of Risk |
|---|---|
| High Tolerance | • Strategic risks<br>• Operational and transformational risks |
| Medium Tolerance | • Macroeconomic risks<br>• Geopolitical risks |
| Low Tolerance | • Health and Safety risks<br>• Manufacturing risks<br>• Bribery and slavery risks<br>• Regulatory and compliance risks<br>• Brand reputational risks |

## 2015 Risk Management Actions

A thorough bottom up review was conducted by the Executive Committee to challenge what the principal risks in the organisation are and whether appropriate mitigations are in place. This resulted in a reduction in the number of Principal Risks to a more focused group with an additional focus on mitigating actions.

In addition, a full Business Continuity (BC) Planning event was conducted with senior management engagement and involvement. Mothercare has a maturing Incident Management Team, able to react quickly to an incident adopting the policies laid down in the BC plans.

## Additional Actions

In conjunction with the internal risk identification process and subsequent management action to mitigate risks, Mothercare utilises the services of PwC to provide due diligence on the methodology used to identify risks, in particular any emerging risks that may have been noted in the retail sector that have not presented themselves to management's attention through the internal process. The full risk register translates into the risk universe from which the half-yearly internal audit plan is formulated. By working in this way management is confident that, as far as is reasonably possible, risk management is proactive and not reactive within the organisation.

In accordance with C.2.1 of the UK Corporate Governance Code, the Directors confirm they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

Below are the Principal Risks and Uncertainties and the ratings as agreed by the Board for FY2015/16.

# Risks
## Principal risks and uncertainties

| Risk description | Impact | Mitigation | Change on last year |
|---|---|---|---|
| • The anticipated turnaround of the Group's UK business may not be achievable if it fails to implement effectively key aspects of its new strategic plan. | • The Group is unable to compete with other key players in the UK, including multi-channel retailers as well as internet only businesses causing the Group's in store sales to decline and reduce profits.<br>This risk impacts the following strategic pillars:<br>01 02 03 04 05 | • Rigorous project governance managing the key spend areas of store refurbishment and IT systems with audit oversight.<br>• Strategic plan to refurbish all ongoing stores, varying from light touch re-fits to full refurbishment, within the three year plan – 47 stores refurbished during FY2015/16.<br>• Maintaining a lean organisation through tight management of resources and controlling the Group's cost base.<br>• Simplify customers' online journey and enhance the customer experience by way of improved photo and video presentation and customer reviews.<br>• Improve the product delivery proposition, including enabling customers to better track their product orders and provide greater convenience and choice as to delivery and collection points with stores enabled to pick product for customers from store stock. | No change |
| • The Group may be affected by challenging economic conditions and political developments affecting the UK and International markets in which it operates.<br>• The Group's results of operation may be affected by foreign exchange risk. | • As the UK economy continues to strengthen, the economic and political uncertainty enveloping eastern/southern Europe, oil based economies, and those dependent on China could have a material adverse effect on the Group's business.<br>• Hedging foreign exchange does not eliminate the Group's exchange or interest rate risks entirely and may not be fully effective. Any significant losses on the Group's hedging positions could have a material adverse effect on the Group's business, results of operations or financial condition.<br>This risk impacts the following strategic pillars:<br>03 04 06 | • Improved products, presentation and service, including exclusivity in branded offerings.<br>• Franchise partners have the ability to source product locally.<br>• Improved customer service with investment in training of management and store teams to improve the quality and consistency.<br>• improved customer propositions targeting improved credit finance proposition in partnership with third party credit providers, personal shopping and online booking of specialist services and activities in store.<br>• Group's hedging policy agreed by the Board.<br>• The largest five franchisees have their trading currencies hedged.<br>• Hedging undertaken by Treasury signed off by the Director of Finance, using six to nine month horizon for the five largest franchisees and 15 months for US Dollar exposure.<br>• Limited exposure to Eurozone countries. | Increase in risk over the year |

**Strategic pillar objectives:**

| | |
|---|---|
| 01 Become a digitally led business | 04 Stabilise and recapture gross margin |
| 02 Supported by a modern retail estate | 05 Running a lean organisation while investing for the future |
| 03 Offering style, quality and innovation in product | 06 Expanding further internationally |

| Risk description | Impact | Mitigation | Change on last year |
|---|---|---|---|
| • The Group is materially dependent on a small number of franchise partners that make up a significant proportion of its International business. | • Any damage to, or loss of, the Group's relationship with Alshaya or any of its other key franchise partners could have a material adverse effect on the Group's business, results of operation or financial condition.<br>This risk impacts the following strategic pillars:<br>06 | • Strong personal and business relationships built up over a long time with key franchise partners.<br>• Regular senior management visits to key franchise partners markets, including the Executive Committee<br>• Credit insurance in place for the major Franchisees.<br>• Development plan agreed for franchise markets. | No change |
| • The Group's brands and reputation are key to its success both in the UK and internationally; any damage to the Group's brands or concerns relating to its products (including their quality or safety) could have a material adverse effect on the business. | • Any perceived or actual concerns related to the Group's products, supply chain or its franchise partners and/or its wholesale customers may be widely disseminated online, on consumer blogs or other social media sites or via print or broadcast media. Similarly, any litigation that the Group may face could subject it to increasing negative attention in the press.<br>This risk impacts the following strategic pillars:<br>03 | • Significant group investment in product quality management resource.<br>• High standards communicated throughout supply chain with in-house responsible sourcing team working in Bangladesh, India and China.<br>• Global code of conduct communicated and applied through the system using an e-learning tool for sign-off.<br>• Focus on pre despatch quality checks.<br>• Established product recall process managed by crisis management team.<br>• The Company participates in the Bangladesh Safety Accord.<br>• Group trade marks are formally logged in country of operation.<br>• IP awareness courses are run through teams and regular checks/searches are conducted. | No change |
| • The Group's business is materially dependent on its ability to source products successfully from its suppliers, most of which are based outside the UK. The Group relies on its manufacturers, suppliers and distributors to comply with employment, environmental and other laws | • If the Group is unable to secure ongoing support, or attractive commercial terms from its existing suppliers, or is unable to find replacement suppliers in the event of a particular source of supply no longer being available, this could have a material adverse effect on the Group's stock management, profitability and competitiveness and may result in a loss of market share.<br>This risk impacts the following strategic pillars:<br>03 04 | • Company Code of Conduct and Conflict of Interest – compliance self-certification.<br>• Corporate Responsible Sourcing team in place.<br>• Tone from the top delivered at International supplier meetings.<br>• Adherence to EU timber laws. | No change |

Strategic report

## Manufacturing and product

| Risk description | Impact | Mitigation | Change on last year |
|---|---|---|---|
| • The Group relies on its ability to improve existing products and successfully develop and launch new innovatory products. | • Failure to bring new innovatory product to the market may have a material adverse effect on the Group's business, results of operation or financial condition.<br><br>This risk impacts the following strategic pillars:<br>03 04 | • Shortening product lead times and restructure its 'Good, Better, Best' product architecture.<br>• Introducing new phases.<br>• Demonstrate good value products across all price points and supplement these with exclusive third-party products and new brands.<br>• Enhance the customer experience in-store through newly refurbished stores with improved presentation and merchandising standards. | No change |
| • The Group's future success depends on the performance of its key senior management and the ability to attract and retain high quality and highly skilled personnel. | • Any failure to attract and retain key personnel to meet the Group's operational needs may delay or curtail the achievement of major strategic objectives and could have a material adverse effect on the continuity of the Group's operations.<br><br>This risk impacts the following strategic pillars:<br>05 | • Share save scheme open to all employees.<br>• Performance related bonus scheme open to all employees.<br>• Quarterly performance reviews against objectives.<br>• People plan now in place.<br>• Regular senior leadership team (SLT) meetings. | No change |

Strategic pillar objectives:

| | |
|---|---|
| 01 Become a digitally led business | 04 Stabilise and recapture gross margin |
| 02 Supported by a modern retail estate | 05 Running a lean organisation while investing for the future |
| 03 Offering style, quality and innovation in product | 06 Expanding further internationally |

## People and infrastructure

| Risk description | Impact | Mitigation | Change on last year |
|---|---|---|---|
| • Any unauthorised access or disclosure of confidential information stored or obtained by the Group, either by criminal cyber-attack or a speculative loner, could have a material effect on its business. | • If any third party with whom the Group interacts violates applicable laws or the Group's data protection policies, whether intended or not, could result in legal claims or regulatory action, which may subject the Group to liability and litigation.<br><br>This risk impacts the following strategic pillars:<br>01 | • End to end encrypted Pin Entry Devices (PED) rolled out to the store estate.<br>• No customer cardholder detail is kept on internal systems.<br>• All sensitive and confidential information that falls within the Data Protection Act is overseen by the Risk Committee.<br>• Constant review of cyber security framework.<br>• Regular reporting of attacks.<br>• Regular penetration tests conducted. | Increase in risk over the year |
| • The Group supplies and sources its products and operates in a number of countries in which bribery and corruption pose significant risks. | • The Group also deals with a significant amount of cash in its operations and is subject to various reporting and anti-money laundering regulations. Any violation of money-laundering laws or regulations by the Group could have a material adverse effect on its business, reputation or results of operation.<br><br>This risk impacts the following strategic pillars:<br>03 06 | • Company Code of Conduct and Conflict of Interest – compliance self-certification.<br>• Awareness of the UK Modern Slavery Act 2015 being presented to all employees globally.<br>• In-house responsible sourcing team working in Bangladesh, India and China who are fully trained in how to deal with attempts at bribery. | No change |

# Financial review

## Results summary

**Group underlying profit before tax increased by £6.6 million to £19.6 million (FY2014/15: £13.0 million). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. Exceptional items include costs relating to activity on property. After exceptional and non-underlying items, the Group recorded a pre-tax profit of £9.7 million (FY2014/15: loss of £13.1 million).**

### Income statement

| £ million | 52 weeks ended 26 March 2016 | 52 weeks ended 28 March 2015 |
|---|---|---|
| Revenue | 682.3 | 713.9 |
| **Underlying profit from operations before interest and share-based payments** | **25.8** | **19.3** |
| Share-based payments | (3.0) | (1.3) |
| Net finance costs | (3.2) | (5.0) |
| **Underlying profit before tax** | **19.6** | **13.0** |
| Exceptional items | (10.2) | (32.0) |
| Non-cash foreign currency adjustments | 1.2 | 6.9 |
| Amortisation of intangible assets | (0.9) | (1.0) |
| **Profit/(Loss) before tax** | **9.7** | **(13.1)** |
| Underlying EPS – basic (pence) | 9.6 | 8.6 |
| EPS – basic (pence) | 3.8 | (12.6) |

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).

### Results by segment

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

| £ million – Revenue | 52 weeks ended 26 March 2016 | 52 weeks ended 28 March 2015 |
|---|---|---|
| UK | 459.7 | 458.1 |
| International | 222.6 | 255.8 |
| **Total** | **682.3** | **713.9** |

| Underlying Profit/(loss) | 52 weeks ended 26 March 2016 | 52 weeks ended 28 March 2015 |
|---|---|---|
| UK | (6.4) | (18.0) |
| International | 40.3 | 45.9 |
| Corporate | (8.1) | (8.6) |
| **Profit from operations before share-based payments** | **25.8** | **19.3** |
| Share-based payments | (3.0) | (1.3) |
| Net finance costs | (3.2) | (5.0) |
| **Underlying profit before tax** | **19.6** | **13.0** |

UK like-for-like sales have increased by 3.6% with support from online sales which were up 15.2% year-on-year. Total UK sales were marginally higher year-on-year, with underlying trading offsetting the impact of 25 planned store closures. The business continued to sell more at full price, and this along with improved buying margins and planned efficiencies improved profitability.

International retail sales decreased by 1.4% on a constant currency basis with all four regions seeing a reduction in both constant and actual currency sales. As a result of the ongoing economic and currency headwinds, reported sales are down by 13%, with profit down on last year.

Corporate expenses represent Board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property, and were lower year-on-year.

### Share-based payments

Underlying profit before tax also includes a share-based payments charge of £3.0 million (FY2014/15: £1.3 million) in relation to the Company's long-term incentive schemes. There are a number of long-term share-based incentive schemes including the Long Term Incentive Plans, the Save As You Earn schemes and the Company Share Option Plan. Full details can be found in note 28 in the consolidated financial statements.

The charges as calculated under IFRS 2 are 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 a comparator group of retailers. As a result it is difficult to estimate or reliably predict future charges.

**Like-for-like sales, total International sales and worldwide sales**
UK '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 online sales.

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

| | Reported sales | | Worldwide sales* | |
|---|---|---|---|---|
| **£ million** | **52 weeks ended 26 March 2016** | **52 weeks ended 28 March 2015** | **52 weeks ended 26 March 2016** | **52 weeks ended 28 March 2015** |
| UK retail sales | 426.1 | 425.7 | 426.1 | 425.7 |
| UK wholesale sales | 33.6 | 32.4 | 33.6 | 32.4 |
| Total UK sales | 459.7 | 458.1 | 459.7 | 458.1 |
| International retail sales | 215.9 | 247.7 | 683.0 | 737.3 |
| International wholesale sales | 6.7 | 8.1 | 6.7 | 8.1 |
| Total International sales | 222.6 | 255.8 | 689.7 | 745.4 |
| **Group sales/Group worldwide sales** | **682.3** | **713.9** | **1,149.4** | **1,203.5** |

* Estimated

## Analysis of worldwide sales movement

| **£ million – Worldwide sales** | |
|---|---|
| Sales for 52 weeks ended 28 March 2015 | 1,203.5 |
| Currency impact | (44.3) |
| Pro forma sales for 52 weeks ended 28 March 2015 | 1,159.2 |
| Decrease in International like-for-like | (29.5) |
| Increase in International space | 19.5 |
| Increase in UK like-for-like | 14.2 |
| Decrease in UK space | (13.8) |
| Decrease in wholesale | (0.2) |
| **Sales for 52 weeks ended 26 March 2016** | **1,149.4** |

Sales in the year ended 26 March 2016 were lower by £54.1 million primarily as a result of an adverse currency impact of £44.3 million.

Excluding the currency impact, worldwide sales have decreased by 0.8% driven by International sales; a decrease in like-for-like sales by 4.5% and an increase in space by 4.6%.

UK like-for-like sales have grown strongly by 3.6%, but have been offset by a decrease in UK space as a result of planned store closures.

# Financial review
continued

## Analysis of profit movement

| £ million – underlying profit before tax | |
|---|---|
| Underlying profit for 52 weeks ended 28 March 2015 | 13.0 |
| Currency impact | (1.0) |
| Pro forma underlying profit for 52 weeks ended 28 March 2015 | 12.0 |
| Decrease in International volumes | (6.4) |
| UK closures of loss-making stores | 3.5 |
| UK new and re-site stores | 0.5 |
| UK sales and margin improvement | 8.2 |
| Decrease in costs | 1.8 |
| **Underlying profit before tax for 52 weeks ended 26 March 2016** | **19.6** |

On a pro forma basis (i.e. excluding the currency impact) underlying profit has increased by £7.6 million. This is driven by UK sales and margin improvement, the closure of UK loss-making stores, and a reduction in the cost base. This is partly offset by a decrease in International volume.

## Foreign exchange

The main exchange rates used to translate the consolidated income statement and balance sheet are set out below:

| | 52 weeks ended 26 March 2016 | 52 weeks ended 28 March 2015 |
|---|---|---|
| **Average:** | | |
| Russian rouble | **95.40** | 70.57 |
| Indonesian rupiah | **20,418** | 19,484 |
| Saudi riyal | **5.68** | 6.03 |
| Emirati dirham | **5.54** | 5.91 |
| **Closing:** | | |
| Russian rouble | **98.09** | 88.67 |
| Indonesian rupiah | **18,959** | 19,499 |
| Saudi riyal | **5.43** | 5.61 |
| Emirati dirham | **5.32** | 5.49 |

The principal currencies that impact our results are Russian rouble, Indonesian rupiah, Saudi riyal and Emirati dirham. The Russian rouble continued to weaken against sterling in the year impacting profit significantly. The net effect of currency translation caused worldwide sales and underlying operating profit from ongoing operations to decrease by £44.3 million and £1.0 million respectively compared with 2015 as shown below:

| | Worldwide Sales £ million | Underlying Operating profit £ million |
|---|---|---|
| Russian rouble | (35.8) | (2.1) |
| Euro – Ireland | (2.2) | (0.1) |
| Euro – Greece | (2.0) | (0.1) |
| Indonesian rupiah | (1.2) | (0.1) |
| Saudi riyal | 6.2 | 0.6 |
| Emirati dirham | 4.8 | 0.4 |
| Other currencies | (14.1) | 0.4 |
| | **(44.3)** | **(1.0)** |

The profit impacts are somewhat mitigated by our hedging strategy on royalty receipts.

In addition to the translation exposure, the Group is also exposed to movements on certain of its transactions, principally movements in the US dollar. These exposures are largely hedged and therefore did not significantly impact underlying profit.

### Net finance cost

Financing represents interest receivable on bank deposits, fees payable on borrowing facilities, the amortisation of costs relating to bank facility fees and the net interest charge on the liabilities/assets of the pension scheme. The net finance cost is materially lower than last year as the Group was largely in a net cash position during the year.

| | 52 weeks ended 26 March 2016 £ million | 52 weeks ended 28 March 2015 £ million |
|---|---|---|
| Net interest on liabilities/return on assets on pension | **2.7** | 2.1 |
| Other net interest | **0.5** | 4.4 |
| **Net finance costs** | **3.2** | 6.5 |

### Taxation

The underlying tax charge is comprised of current overseas taxes and a prior year adjustment for UK taxes and is offset by UK deferred tax. The effective tax rate is 16.4% (FY2014/15: 19.2%). The effective tax rate is lower than the standard tax rate of 20% mainly due to the utilisation of brought forward tax losses. An underlying tax charge of £3.2 million (FY2014/15: £2.5 million) has been included for the period and in total the tax charge was £3.3 million (FY2014/15: £2.3 million). The cash tax payments were £2.4 million.

### Non-underlying items

Underlying profit before tax excludes the following non-underlying items (see note 6):

Exceptional items (see note 6):

- Assets written off at net book value with respect to the store restructuring and refurbishment programme of £5.6 million.
- A credit for the release of store property provisions in relation to the UK business of £0.8 million.
- International bad debt costs of £1.9 million.
- Impairment of joint venture by £3.3 million.

Exceptional items in FY2014/15 included restructuring costs of the UK and head office organisation totalling £9.1 million, a credit for the release of the store impairment provision in relation to the UK business of £4.8 million, property-related exceptional costs of £25.9 million and costs relating to re-financing completed in October 2014 of £1.5 million.

Other non-underlying items:

- The retranslation of foreign cash, payables and receivables.
- The revaluation of outstanding forward contracts, these represent contracts that have not yet been matched to the purchase of stock. (note: the prior year credit included the fair value movement of contracts taken out before hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' was adopted in January 2014).
- Amortisation of intangible assets (excluding software).

## Earnings per share and dividend

Basic earnings per share were 3.8 pence compared to a loss per share of 12.6 pence in FY2014/15. Basic underlying earnings per share were 9.6 pence compared to 8.6 pence last year.

| | 52 weeks ended 26 March 2016 million | 52 weeks ended 28 March 2015 million |
|---|---|---|
| **Weighted average number of shares in issue** | **170.6** | 122.2 |
| Dilution – option schemes (for underlying results only) | **6.0** | 3.6 |
| **Diluted weighted average number of shares in issue** | **176.6** | 125.8 |
| Number of shares at period end | **170.9** | 170.5 |
| | **£ million** | **£ million** |
| **Profit/(loss) for basic and diluted earnings per share** | **6.4** | (15.4) |
| Exceptional items and other non-underlying items (note 3) | **9.9** | 26.1 |
| Tax effect of above items | **0.1** | (0.2) |
| **Underlying earnings** | **16.4** | 10.5 |
| **Basic earnings/(loss) per share** | **3.8** | (12.6) |
| **Basic underlying earnings per share** | **9.6** | 8.6 |
| **Diluted earnings/(loss) per share** | **3.6** | (12.6) |
| **Diluted underlying earnings per share** | **9.3** | 8.3 |

The Board has concluded that given the cash investment required to deliver the new strategy the Company will not pay a final dividend for FY2015/16. The total dividend for the year is nil pence per share (FY2014/15: nil pence per share).

## Pensions

The Mothercare defined benefit pension schemes were closed with effect from 30 March 2013. Details of the income statement net charge, total cash funding and net assets and liabilities are as follows:

| £ million | 52 weeks ending 25 March 2017* | 52 weeks ending 26 March 2016 | 52 weeks ended 28 March 2015 |
|---|---|---|---|
| **Income statement** | | | |
| Running costs | (2.7) | (2.7) | (1.4) |
| Net interest on liabilities/return on assets | (2.5) | (2.7) | (2.1) |
| Net charge | (5.2) | (5.4) | (3.5) |
| **Cash funding** | | | |
| Regular contributions | (2.2) | (2.2) | (0.6) |
| Deficit contributions | (7.7) | (8.9) | (5.8) |
| Total cash funding | (9.9) | (11.1) | (6.4) |
| **Balance sheet** | | | |
| Fair value of schemes' assets | n/a | 287.5 | 283.4 |
| Present value of defined benefit obligations | n/a | (361.9) | (364.6) |
| Net liability | n/a | (74.4) | (81.2) |

* Estimate

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation and their sensitivity to a 0.1% movement in the rate are shown below:

| | 2015/16 | 2014/15 | 2015/16 Sensitivity | 2015/16 Sensitivity £ million |
|---|---|---|---|---|
| Discount rate | 3.6% | 3.5% | +/- 0.1% | -6.4/+6.4 |
| Inflation – RPI | 3.1% | 3.1% | +/- 0.1% | +6.3/-6.3 |
| Inflation – CPI | 2.0% | 2.0% | +/- 0.1% | +6.3/-6.3 |

## Cash flow

Underlying free cash flow was £(5.6) million with cash generated from operations of £35.8 million.

Capital expenditure of £39.2 million reflected the investment in the year in store refurbishment and IT infrastructure.

Working capital outflow of £nil is higher then 2015 reflecting the timing profile of payments for stock.

| | 52 weeks ended 26 March 2016 £ million | 52 weeks ended 28 March 2015 £ million |
|---|---|---|
| **Underlying profit from operations before interest and share based payments** | **25.8** | 19.3 |
| Depreciation and amortisation | **17.5** | 16.7 |
| Retirement benefit schemes | **(8.4)** | (5.0) |
| Change in working capital | **–** | (9.8) |
| Other movements | **0.9** | (3.2) |
| **Cash generated from operations** | **35.8** | 18.0 |
| Capital expenditure | **(39.2)** | (12.7) |
| Interest and tax paid | **(2.2)** | (6.2) |
| **Underlying Free cash flow** | **(5.6)** | (0.9) |
| Exceptional | **(12.9)** | (16.7) |
| **Free cash flow** | **(18.5)** | (17.6) |
| Net bank loans repaid | **–** | (65.0) |
| Issue of ordinary share capital | **0.4** | 95.3 |
| Exchange differences | **0.1** | 1.5 |
| Cash and cash equivalents at beginning of period | **31.5** | 17.3 |
| **Net cash and cash equivalents at end of period** | **13.5** | 31.5 |

# Financial review
continued

## Balance sheet

The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £5.5 million and goodwill of £26.8 million. These assets are allocated to the International business.

| | 26 March 2016 £ million | 28 March 2015 £ million |
|---|---|---|
| Goodwill and other intangibles | **53.9** | 45.9 |
| Property, plant and equipment | **69.4** | 56.4 |
| Retirement benefit obligations (net of tax) | **(58.1)** | (64.9) |
| Net cash | **13.5** | 31.5 |
| Derivative financial instruments | **11.2** | 9.3 |
| Other net liabilities | **(0.8)** | (0.5) |
| **Net assets** | **89.1** | 77.7 |
| Share capital and premium | **146.4** | 146.0 |
| Reserves | **(57.3)** | (68.3) |
| **Total equity** | **89.1** | 77.7 |

Shareholders' funds amount to £89.1 million, an increase of £11.4 million in the year driven mainly by a fall in the defined benefit obligation of £6.8 million. This represents £0.52 per share compared to £0.46 per share at the previous year end.

## Going concern

The directors have reviewed the going concern principle according to revised guidance provided by the FRC.

The Group's business activities and the factors likely to affect its future development are set out in the Principal Risks and Uncertainties section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.

At the end of the year the Group had a cash balance of £13.5 million and was debt free with sufficient headroom against covenants.

The directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance. This indicates the Group will operate within the terms of its borrowing facilities and covenants for the foreseeable future. To the extent that future trading is worse than a reasonably possible downside, which the directors do not consider a likely scenario, then there are mitigating actions available, which would enable the Group to continue to operate within the terms of the borrowing facilities and covenants for the foreseeable future. Based on this, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements are therefore prepared on the going concern basis.

## Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the directors have assessed the prospects and viability of the Company and its ability to meet liabilities as they fall due over the medium term. The directors concluded that a period of three years is a suitable time period for their review for the following reasons:

- this period aligns with our business planning cycle and delivery of strategic goals; and
- performance is significantly impacted by both UK and International economic conditions which are difficult to predict beyond this period.

The assessment was made by considering the principal risks facing the Company, and stress testing the strategic plan to model the impact of a combination of these risks occurring together to drive severe and extreme pressure on the business over the three-year period to FY2018/19. The review included detailed financial projections covering profit, cash flows and banking facility covenants. Two different scenarios were modelled.

The first scenario assumed a continuation of severe external macroeconomic and currency pressures across key International markets over an 18-month period, alongside a marked downward turn in consumer confidence in the UK market over the same timeframe, with the impact equivalent to the worst UK performance over a five-year historic period. Modest recovery is assumed thereafter across the Group. Projections under this scenario factored in short term high single digit negative like-for-like growth in International, and negative like-for-like and margins in the UK. The second scenario assumes a less severe but sustained negative impact on both the UK and International businesses, with smaller declines each year over the entire period.

In both of the above scenarios, the profitability of the business would be significantly impacted, and profit-related bank covenants would require renegotiation in H2 FY2016/17 in order to retain the current overdraft and rolling credit facility totalling £50 million (due for renewal in May 2018). However, the directors concluded that while management would need to take significant mitigating actions such as an immediate and material reduction in capital spend and costs, there would be sufficient cash available for the business to remain liquid in both of the above scenarios over the period reviewed.

Based on the results of this review, the directors confirm they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for the next three years.

### 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% of Group sales. Total International worldwide sales in the 52-week period represent approximately 60% of Group worldwide sales. The Group therefore has some currency exposure on these sales, but they are used to offset or hedge in part the Group's US dollar denominated product purchases. The Group policy is that all material exposures are hedged by using forward currency contracts. To help mitigate against the currency impact on royalty receipts, the Group has hedged against its major market currency exposure.

### Interest rate risk

The Group remained cash positive during the year ended 26 March 2016 and is not currently exposed to any material interest rate risk.

The Group has a revolving credit facility, which as at 26 March 2016 has not had any amounts drawn down on it. However, should the Group draw down on this facility in the future, the Group would incur interest rate risk again.

### Events after the balance sheet date

There have been no post balance sheet events.

# Corporate responsibility

## Our Corporate Responsibility programme has four key pillars:

1. **Responsible Sourcing** – ensuring that our suppliers and partners treat people with respect and dignity and offer them decent working conditions and pay.
2. **Environment** – understanding and reducing our environmental impacts.
3. **People** – investing in our people is fundamental to our success.
4. **Communities** – engaging with charities and communities.

At Mothercare, we are committed to our Corporate Responsibility (CR) programme, for the benefit of all our stakeholders. As a responsible retailer, our social and environmental commitments sit alongside our vision to be the leading global retailer for parents and young children.

The team comprises ten Responsible Sourcing (RS) professionals, based in China, India and Bangladesh, reporting into the Group's Global Head of Corporate Responsibility. In addition, internal and external stakeholders contribute to the success of our CR programme.

Our approach is one of continuous improvement and collaboration with partners such as suppliers, other retailers, non-governmental organisations (NGOs) and other advisors.

In late 2015 we carried out a strategic review of our CR programme. This was to ensure that our work is in line with our vision and values. As a result, we are now developing a new CR strategy with input from key stakeholders, to be launched later in 2016.

The strategic direction of our CR programme is developed and agreed through the CR Steering Committee, which is chaired by two Executive Committee members: Karl Doyle, Global Product Director and Daniel Talisman, General Counsel and Group Company Secretary. The Committee is made up of members of the Senior Management team and reports to the Board through the Audit and Risk Committee.

This report provides an overview of our activities over the last 12 months and an update on the targets we set ourselves.

## Highlights

In FY2015/16, the Mothercare Group:

- exceeded its UK environmental targets to:
  - reduce $CO_2$ emissions through buildings by 5%; we achieved 15%;
  - reduce $CO_2$ emissions through transport by 5%; we achieved 5%; and
  - reduce packaging per £100 (kg, UK only) by 1%; we achieved 7%;
- had 52% of senior management positions (below Board level) filled by women; and
- continued to drive its commitment to RS.

## 1 Responsible Sourcing

For Mothercare Group, RS means partnering with suppliers that:

- provide decent, safe and fair working conditions for their employees;
- treat employees with dignity and respect;
- reduce the environmental impacts of their operations; and
- commit to continuous improvements.

### Our Approach

RS of all Mothercare and ELC products is a major focus for our CR work. We acknowledge the material risks and opportunities of our supply chains and aim to address these proactively.

We are active members of the Ethical Trading Initiative (ETI) and our Code of Practice is based on the ETI's Base Code, which outlines the labour standards expected at factories. Before production is approved, all factories must provide an independent factory ethical audit from a shortlist of providers, to demonstrate that they comply with our Code. Our internal RS teams based in our sourcing offices review and grade these audits.

In addition to third party audits, our RS teams cover Bangladesh, Cambodia, China, India, Sri Lanka and Vietnam where they carry out announced and unannounced assessments of factories and support them to implement improvements.

Investing in our own internal RS team gives us a significant advantage because it allows us to take a practical and proactive approach with suppliers. This means we increase the visibility of our supply chain and focus on working with factories to make sustainable improvements based on management systems which address root causes.

Much of our work in RS is particularly relevant to the UK government's Modern Slavery Act 2015, which applies to Mothercare. We believe the new law is an opportunity for progressive organisations to share the work they are doing and to encourage more action on this serious topic. In line with the law, we will be reporting our actions under the Modern Slavery Act on our website at www.mothercareplc.com in early FY2016/17.

### Supply Chain and Ethical Auditing

As a global retailer of fashion and footwear, home and travel products and toys, our supply chain involves a diverse number of product types and processes. Despite this, many of our key suppliers across all divisions have been working with Mothercare for over 10 years, investing in product development to deliver innovative, high quality and stylish products.

We source from approximately 500 factories. China, India, Turkey, Bangladesh and the UK account for 89% of our production sites.

This year we reviewed over 500 independent audits of factories, including new factories and annual updates. We accept a shortlist of globally recognised third party audit types and companies in order to help factories reduce duplication of auditing. However, this year we removed two auditing types from our accepted list due to concerns around quality.

We carried out a validation exercise of our supply chain reminding suppliers of our sub-contracting policy (sub-contracting of primary processes must be declared and approved in advance and secondary processes must be recorded and monitored). As a result we disengaged and approved a number of primary sites across our supply chain.

### Supplier Development

This year our internal RS team has carried out over 340 factory assessments across all divisions in China, India and Bangladesh. Our approach is to encourage transparency, capacity building and continuous improvement and our team is skilled at building partnerships with our commercial teams and suppliers to encourage investment in their businesses, rather than simply auditing. As part of this, the internal teams provide factories with training, advice and practical tools.

With this approach, we have been pleased to see over 60% of the factories involved have made enough improvements to be 'downgraded' (e.g. from an 'orange' rating to a 'yellow' or a 'green' rating). However, if findings are serious and if factories do not make progress after receiving an opportunity to improve, we have no option but to cease working with them.

### Collaboration with Stakeholders

In addition to our own work, we believe that dialogue and collaboration with stakeholders such as other brands and retailers, investors, NGOs, government and industry bodies, are the most effective ways to influence long-lasting improvements. Concerns identified during factory audits are often industry-wide and cannot be resolved by individual retailers. In order to address this, we continue to be members of the ETI and are involved in working groups such as the China Caucus group and the Southern India working group (see below).

### Project Updates

Over the last year, in addition to working with our supply base on assessments, improvements and the Supplier Development Programme (SDP), we have been actively involved in the following initiatives:

**A** ETI Southern India Programme;
**B** ETI China Caucus;
**C** Supplier Environmental Performance;
**D** Indian CSR Law;
**E** Rights and Responsibilities Training;
**F** Bangladesh Accord; and
**G** Benefits for Business and Workers (BBW).

### A Ethical Trading Initiative (ETI) – Southern India Programme

Over the last few years, reports by NGOs have brought to light concerns about labour practices in Tamil Nadu's garment and textile industry. Mothercare has been a member of the ETI's programme since 2012, called TNMS (Tamil Nadu Multi-Stakeholders) which brings together diverse stakeholders to address these concerns. We support the need for our combined efforts to understand and improve the recruitment and employment practices in Tamil Nadu.

This remained a very strong focus for the Group in FY2015/16. Three of our suppliers' mills took part in the ETI's training, covering over 1,500 workers on topics related to health and wellbeing. A further two mills have signed up to do this next year. The ETI also recently launched the next stage in their training for mills, which relates to Rights and Responsibilities, and we expect to support this training also.

In addition to supporting the ETI work, we continued our project which began in FY2014/15 to include spinning mills owned by our suppliers in the scope of our assessments and improvement work. Although we do not have any direct commercial relationships with these mills, suppliers in general have been co-operative with these efforts and we are pleased to see improvements from this work, such as building new living quarters for workers, developing and following clear leave policies and providing access to bank accounts for remote units.

# Corporate responsibility
continued

### B ETI China Caucus

We are active members of the ETI's China Caucus group and have been involved in two projects this year. The first project was entitled 'Social Dialogue for Harmonious Labour Relations in Chinese Supply Chains'. Mothercare representatives and our suppliers contributed to the development of a toolkit for brands and their suppliers about social dialogue in China.

The second project is a collaboration with the International Labour Organization (ILO) SCORE (Sustaining Competitive and Responsible Enterprise) project. The project supports practical training and in-factory counselling that improves productivity and working conditions in small and medium enterprises. The initial scoping and proposal phases are complete and the project is due to launch in May 2016.

### C Supplier Environmental Performance

Environmental sustainability is an integral aspect of our Code of Practice and we are committed to helping suppliers reduce the environmental impacts of manufacturing. All of our assessments provide guidance on environmental compliance, such as ensuring that effluents are treated properly, that hazardous waste is handled, stored and disposed correctly and that natural resources are not wasted.

In FY2015/16 we have also been in contact with a Chinese environmental NGO for advice on developing an environmental scorecard for six key suppliers, which we can then use for all Chinese suppliers. This work will continue into FY2016/17.

### D Indian Corporate Social Responsibility Law

In accordance with the Indian Companies Act 2013, Mothercare India will donate annually at least 2% of its previous three years' average net profits on relevant Indian CSR activities.

This year we donated over £16,000 to an Indian NGO called SAMVADA, which aims to 'help women go out to work through learning opportunities and child care support'. The project has two key objectives:

- I To support women factory workers by providing a community crèche that provides child care support for infants, pre-schoolers and children who need after-school care. The location of this crèche will be near an industrial area where many women work in factories; and
- II To equip disadvantaged women with valuable job skills through a three month course in Early Childhood Care and Education so that they can meet their livelihood needs whilst supporting the crèche to provide quality child care for women who go out to work.

### E Rights and Responsibilities Training

In FY2015/16, Mothercare, with other retailers, sponsored the Hindi dubbing of a training video developed by the Centre for Responsible Business (CRB) based in India. The video and accompanying training course explain worker rights and responsibilities in the workplace.

The video was already available in two languages, Kannada and Tamil, and we believed that having this in Hindi would benefit a large number of workers in North India and those who have migrated to the South. So far, all of our key suppliers in the Tirupur region have attended the trainings.

### F Bangladesh Accord

Although we were not involved in the Rana Plaza tragedy in April 2013, we continue to make efforts to ensure that factories in our supply chain meet building, fire and electrical safety standards, as well as other labour standards as part of our Code of Practice. We signed the Bangaldesh Accord on Building and Fire Safety in Bangladesh in 2013 and are committed to ensuring that standards are constantly monitored and improved.

All of our suppliers' factories in Bangladesh have been inspected by independent experts for structural, fire and electrical safety and are working towards remediation. Although many factories across the entire Accord factory base are taking longer to make progress than was previously hoped, our factories are showing progress which is above the average and some have received recognition letters for completing initial remediation. However, there is still much to do and we will continue to encourage further completion of this work next year.

### G Benefits for Business and Workers (BBW)

BBW is an HR and Productivity training programme developed by two consultancies: Impactt (a leading labour standards consultancy) and Rajesh Bheda Consulting (production consultancy). The programme helps transform factories into good businesses providing great jobs for their workers by developing a skilled, well paid, safe and loyal workforce.

Many of our factories in India and Bangladesh have already benefited from this training. In FY2015/16, two key factories in Bangladesh started the training and one has already graduated. This factory made very encouraging progress, with worker absenteeism reducing from 9% to 3%, worker turnover reducing by 60% and average pay increasing by 19%.

## 2 Environment

| Key performance indicators | FY2015 Performance | FY2016 Performance | FY2016 vs FY2015 (+/-)% | Target |
|---|---|---|---|---|
| Building energy use (m kWh) | 43.74 | 37.95 | -13% | – |
| Transport fuel used (m litres) | 0.92 | 0.88 | -4% | – |
| Transport mileage (m miles) | 2.57 | 2.22 | -13% | – |
| $CO_2$e emissions (tonnes)* | 20,847 | 18,049 | -13% | – |
| $CO_2$e emissions (per '000 sq.ft.) | 12.57 | 11.62 | -8% | – |
| Of which: | | | | |
| Buildings | 18,453 | 15,769 | -15% | -5% |
| Transport | 2,394 | 2,279 | -5% | -5% |
| Packaging used (tonnes, UK only) | 6,185 | 5,758 | -7% | – |
| Packaging per £100 (kg, UK only) | 13.50 | 12.53 | -7% | -1% |
| Total waste (tonnes, UK only) | 5,098 | 4,539 | -11% | – |
| Recycled waste (%) | 95% | 91% | -4% points | 90% |

* Greenhouse Gas emissions methodology: we have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the activities for which we have operational control. There are no material exclusions from this data. The data has been prepared in accordance with the UK Government's Environmental Reporting Guidance (2013 version).

### Building emissions – target to reduce emissions by 5% against FY2014/15 – achieved

Buildings emissions relate to electricity and gas consumption at our UK stores, UK and overseas offices and distribution centres. During FY2015/16, we achieved a 15% reduction in emissions compared with the previous year. This reduction was achieved due to planned store closures, a warmer winter and a programme of replacing the gas heating boilers at our UK office with new energy efficient equipment, which began in late FY2015/16.

### Transport emissions – target to reduce emissions by 5% against FY2014/15 – achieved

Transport emissions relate to diesel consumption for deliveries from our distribution centres to stores. During FY2015/16 we introduced new transport routes, incorporating greater use of double decker trailers. We also replaced our ageing trailer fleet. This achieved a 13% reduction in distance travelled and a 4% reduction in fuel consumption and led to an overall reduction in transport emissions of 5%.

### Packaging handled – target to reduce kg per £100 of sales by 1% against FY2014/15 – achieved

Product packaging tonnage fell by 7% during FY2015/16 as we sold a greater proportion of products with lighter packaging. We also continued our efficiency projects to reduce product packaging. For example, we recently updated all of our own-label Innosense packaging, which will result in significant waste reduction and cost savings.

This decrease in packaging tonnage contributed to an 11% reduction in total waste across our stores and distribution centres. 91% of waste was recycled, in line with our objective to recycle at least 90% of waste each year.

During the second half of FY2015/16 carrier bag charging came into force in England – matching Wales, Scotland and Northern Ireland. Compared with the previous year, in FY2015/16 the number of carrier bags used by customers fell by circa 80%.

### Targets FY2016/17

For FY2016/17 we will continue to set reduction targets as follows:

- Reduce $CO_2$ emissions through buildings by 5%;
- Reduce $CO_2$ emissions through transport by 5%; and
- Reduce packaging per £100 (kg, UK only) by 1%.

# Corporate responsibility
continued

## 3 People

We employ directly 5,346 people in the UK and 175 in Asia, not including those colleagues who work for our global network of International partners.

We have a diverse workforce with a third of our Board and 51% of our senior management roles (not including executive management) held by females. Throughout the rest of the business 91% of our UK retail colleagues and 76% of our UK office colleagues are female.

We communicate with all colleagues in a variety of ways and have been regularly sharing video updates about the progress of the Company from Mark Newton-Jones, our CEO, and others with colleagues across the globe.

We are laying the foundations for our employer value proposition that supports the brand. In terms of attracting talent, we have reviewed our resourcing methodologies and are trialling new methods for volume recruitment to reduce cost, improve candidate experience, consistency and quality of hires.

We have continued to invest in our people through a number of learning and development initiatives. We have focused particularly on our buying and merchandising teams, with 306 individuals trained through our Buying and Merchandising Academy during the year, to develop best practice. In retail operations, a large proportion of our management teams have been through The Retail Academy, equipping them with essential management skills and readiness for the changing organisation. Car seat and bra fitting training sessions continue, working closely with suppliers.

'Inspire' the Group learning management system was launched in FY2015/16 and is now in regular use enabling employees across the Group to remotely access and develop a number of core skills, from compliance and product knowledge to personal development. New content is being developed and uploaded continually and we continue to embed this into the business to ensure the facility reaches its full potential.

Finally, we completed a values and behaviours programme. It was led by the Senior Leadership Team who built the programme from the ground up and then led the cascade across the organisation. The process facilitated the engagement of the entire business, which has gone a long way towards building a stronger team while also fostering closer and more collaborative working relationships across the Company.

## 4 Communities

During FY2015/16 we developed a fresh approach to charity. The Mothercare Group Foundation (MGF)'s trustees defined Mothercare's charitable role and purpose in a new Mission Statement, as follows:

The Mothercare Group Foundation aims to help parents in the UK and worldwide meet the needs and aspirations for their children and to give them the very best chance of good health, education, wellbeing and a secure start in life.

The MGF donations will be focused on three areas:

- I ensuring the good health and well-being of mums-to-be, new mums and their children;
- II special baby care needs and premature births; and
- III parenting initiatives (or charities) that support families on the parenting journey.

It was agreed by the trustees that the revenue from the MGF will be shared across two beneficiaries:

### i A Charity of the Year

Our official FY2016/17 Charity of the Year is Tommy's. We received a number of nominations both from charities and colleagues. The clear winner was Tommy's, the charity which funds research into pregnancy problems and provides information to parents. The charity believes it is unacceptable that one in four women loses a baby during pregnancy and birth. In FY2016 we donated £20,000 to the charity. To find out more about Tommy's, please go to www.tommys.org.

### ii Employee sponsorship matching fund

This year we also launched a matching fund meaning that Mothercare will match employees' own fundraising activities up to a cap of £250 per activity and up to a total of £5,000 per year.

In addition to the MGF donations, Mothercare Group will donate all income received from the charges for single-use carrier bags in England, Scotland and Wales (Northern Ireland pay the levy to the government) to our chosen environmental charity, 'Trees for Cities', due to its educational, community and international reach. To find out more about the charity, please visit www.treesforcities.org.

### Store Communities

We are committed to uniting mums and dads to take on parenting together. Through our store events, we provide education and information to parents in the community.

My Mothercare Expectant Parent Events run in around 130 of our stores across the UK, three times a year (usually in February, June and October). In-store experts give advice on in-car safety, sleep safety and nursery, pushchair choices and the best toys for baby's first year. Midwives, health visitors and first aid trainers from St. John Ambulance, St Andrew First Aid and the British Red Cross attend frequently to offer advice to expectant parents.
The My Mothercare website has the event's details: www.mymothercare.com

We also support National Breastfeeding Week. Midwives and health visitors attend our stores and run advice points for mums and mums-to-be, offering their help and support.

### Providing a place for mums, dads and families to meet

We have cafés and soft play areas at our Mothercare stores at Cribbs Causeway (Bristol), Manchester, Gateshead, Solihull, Romford, Edmonton, Leeds, Sprucefield (Nothern Ireland) and Dudley, which offer a practical meeting space for parents to relax whilst out shopping with young children.