

Remuneration report

Remuneration committee chairman's statement

Remuneration plays a critical role in fostering the long-term growth and success of any business in a way that promotes good corporate governance and acceptable risk management. This report explains the principles and details of the group's remuneration arrangements to demonstrate that they continue to be aligned with these objectives.

Last year, the committee undertook a comprehensive review of Mothercare's compensation to its executive directors and senior management to ensure that the short- and long-term incentives reward performance in line with the group's strategy. This review was carried out by independent remuneration consultants with input from the board and the executive directors. The conclusion of the review was that the incentive arrangements were appropriate, remain closely aligned with shareholders' interests and are motivational for the management team. As a result of this review and based on the recommendations received, the committee decided that the structure of the remuneration packages did not require any major alteration. For the third year in succession, the committee decided not to increase executive committee salaries in order to maintain the emphasis on variable pay in such a way that remuneration remains directly linked to business performance.

The short-term incentive scheme already includes specific business-related performance measures, in addition to PBT and cash flow targets, with payment under the scheme weighted to reward achievement of most or all of the targets. The group's PSP and EIP schemes remain the cornerstone of its longer term incentive plans for executive directors and senior management and encourage profit growth of 15 per cent per annum and the delivery of total shareholder return to shareholders. The committee believes that these schemes continue to work well and that no changes are required at this time. Details of all these schemes are set out more specifically later in this report.

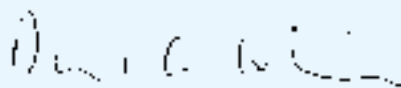
The PSP and EIP schemes, approved by shareholders in 2006, work on three-year cycles. In this year's remuneration report we report on performance of the second PSP and EIP cycles (for the period to 27 March 2010) for which the following results were achieved:

- Mothercare's market cap increased by 107 per cent from £274.1 million to £566.4 million;
- TSR over the three-year period outperformed the FTSE All-Share General Retailers by 120 per cent (Mothercare +88 per cent; General Retailers -32 per cent); and
- Underlying profit before tax over three years increased by 64.6 per cent to £37.2 million.

The report on the performance of the third cycle of EIP and PSP (which matured in March 2011) will be detailed in next year's annual report.

The management team continues to work hard to deliver value to shareholders through continued improvement in the product offering and brand experience at both Mothercare and Early Learning Centre, for the benefit of all of our customers around the world. The performance of the group's worldwide business, in addition to its performance in the UK, is reflected in its remuneration strategy and the retention of this experienced management team will be an important factor in driving the continued success of the overall business.

We believe that we have a fair balance between the remuneration incentives and the performance of the group's business, in each case both for the short and long term.



David Williams

Chairman, remuneration committee

Introduction and remuneration policy statement

The cornerstone of the group's long-term incentive plans for directors and senior management are the EIP and the PSP. These two key long-term incentive schemes, together with the annual bonus scheme, are designed to incentivise outstanding long-term performance aligned with shareholders' interests.

Our remuneration policy is to provide competitive remuneration packages that will help recruit, retain and motivate executives of the required calibre to meet the group's strategic objectives. We aim to ensure the policy is appropriate to the group's needs and rewards executives directly for the creation of superior shareholder value. The committee monitors the group's compliance with the Combined Code provisions and institutional investor guidelines for directors' remuneration.

The policy seeks to form an appropriate balance between the fixed and performance-related elements of remuneration. The bonus plan rewards primarily the achievement of group profit before tax, a measure which the board believes is a highly relevant measure of annual performance for Mothercare, personal/strategic performance objectives, as well as the achievement of cash generation and business KPIs. Longer term performance remuneration is delivered through equity-based incentives including the EIP and PSP, which reward three-year relative total shareholder return (TSR) and three-year growth in profit before tax (PBT).

The committee normally reviews the executive directors' remuneration annually against a policy that positions base salaries at competitive levels. Comparisons are made to companies that are similar to the group in sector focus, size and complexity. The variable elements of the package are designed to attract and retain high-calibre individuals, motivate outstanding performance and provide executive directors and the senior management team with the opportunity to earn top quartile remuneration for top quartile performance. Details of the individual executive directors' remuneration are described later in this report.

The remuneration report

This report to shareholders has been prepared in accordance with the Companies Act 2006 (the Act), and the relevant regulations relating to directors' remuneration, the requirements of the Listing Rules of the UK Listing Authority and the Combined Code (the Code). At the Annual General Meeting on 14 July 2011 shareholders will be asked to approve this report.

The relevant section of the Act and regulations require the auditors to report on certain elements of this report and to state whether in their opinion these elements have been properly prepared in accordance with the Act. The audited sections include directors' share options, the PSP and EIP awards (including that set out in Appendix A on page 82), emoluments and compensation payments as set out in Table 1A and pension arrangements set out in Table 2 of Appendix A.

The remuneration committee

Composition of the remuneration committee

The remuneration committee is comprised of the independent non-executive directors and the chairman of the Mothercare plc board (who, in the view of the directors, was deemed to be independent upon appointment). David Williams is chairman of the committee with Bernard Cragg, Ian Peacock and Richard Rivers serving throughout the year, and with Karren Brady serving until her resignation in August 2010 and Amanda Mackenzie serving from January 2011.

The committee's principal duty is the determination of the remuneration for the executive directors, approval of the pay and benefits of the members of the executive committee and oversight of remuneration policy for management below executive director and executive committee members to ensure that such remuneration is consistent with delivery of the business strategy and value creation for shareholders. The committee met four times during the year and each member's attendance at these meetings is set out on page 35 of the corporate governance report. The committee's detailed terms of reference are available on the Mothercare website at www.mothercareplc.com.

Advisers to the remuneration committee

The committee retained the organisations listed below to assist them in their work during the year. The committee has also consulted the chief executive, human resources director and group general counsel and company secretary as appropriate. No executive was present for discussions of their own remuneration.

Person or organisation	Services provided
Kepler Associates Ltd	Executive remuneration, remuneration benchmarking and evaluation of share scheme performance criteria
Lane Clark & Peacock LLP	Pensions advice
DLA Piper LLP	Legal services principally in respect of employment contracts

With the exception of DLA Piper LLP, the external advisers listed above have not provided any other services to the Company and do not have any other connections with the Company. DLA Piper LLP provides general legal advice to the group.

Remuneration report

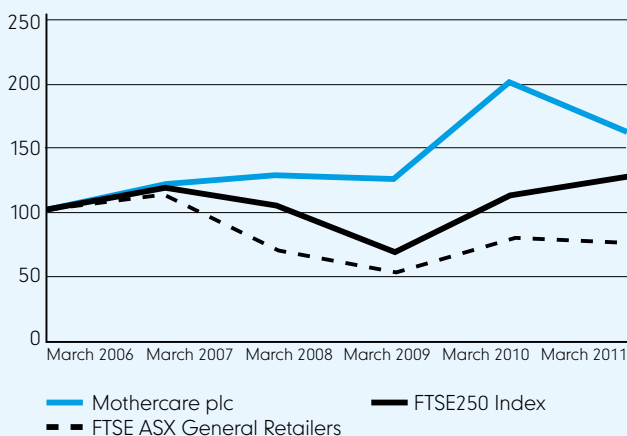
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Performance graph

The performance graph below shows the group's TSR against the return achieved by the FTSE250 index. Mothercare plc entered the FTSE250 on 30 June 2008. Prior to that date it was a constituent member of the FTSE SmallCap Index. The performance graph also shows performance against the FTSE General Retailers Index. The graph shows the five financial years to 26 March 2011.

The indices were chosen on the basis that Mothercare is a constituent of both the FTSE250 and FTSE General Retailers indices. The group's performance against the FTSE General Retailers Index determines the level of vesting of awards under the Executive Incentive Plan.

Total shareholder return



Directors' remuneration

The executive directors' fixed annual remuneration comprises a base salary, which is normally reviewed in April each year, and benefits. The variable elements of remuneration are delivered through an annual bonus scheme, the EIP and PSP. With the exception of the Save As You Earn share option scheme, which is open to all employees including executive directors (but excluding non-executive directors), the group made no awards to the executive directors under any other long-term incentive scheme during the year.

The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on group business are reimbursed when claimed. Non-executive director fees are reviewed periodically and set at levels to reflect the time commitment and responsibilities of the non-executive directors. The fees of the non-executive directors are determined by the chairman and executive directors on behalf of the board. The non-executive directors do not participate in the group pension, annual bonus plan or any long-term incentive scheme. The chairman's remuneration is determined by the remuneration committee without the chairman present.

Salary

Each executive director's salary is considered individually by the remuneration committee, taking account of individual performance and potential; pay positioning relative to comparable roles at other retailers and companies of similar size; and advice from the independent remuneration consultants. Base salary is the only element of remuneration used in determining pensionable earnings under the Mothercare executive pension scheme. With the exception of increases in salary to reflect increased responsibilities, the group maintained 2010/11 salary levels at 2008/09 levels. Consequently, the salaries for Ben Gordon and Neil Harrington remained at £600,000 and £265,400 respectively. No changes in executive director salaries are proposed for the year 2011/12.

Annual bonus

The annual cash bonus scheme for executive directors is based on the achievement of group financial targets and the delivery of stretching personal targets tied to key business objectives. Financial and personal targets are set annually by the remuneration committee. For the year 2010/11 the committee decided that the annual bonus PBT measure should be complemented with measures of operating cash flow, working capital and other key performance indicators (the indicators that are not commercially sensitive are set out in the table below). Consequently, they decided that 75 per cent of the bonus opportunity would be linked to group PBT and the remaining 25 per cent to these other performance measures. The individual performance multipliers would apply to both elements. The cash bonus opportunity remained unchanged from prior years at 115 per cent for Neil Harrington and 135 per cent for Ben Gordon.

Key measures		Target	Achievement
UK stores	Like-for-like sales inc VAT	+3.8%	-2.7%
Direct in Home	Sales growth exc VAT	+15.5%	+10.5%
International	New stores	94	166

Ben Gordon and Neil Harrington received no performance-related bonuses for the year ended 26 March 2011 (2010: £224,100 and £71,600 respectively).

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

The Performance Share Plan (PSP)

The group's performance share plan scheme was approved by shareholders in 2006. Under the PSP, conditional awards of shares of up to 100 per cent of salary (in exceptional circumstances, 200 per cent of salary) are made to selected executives, as determined by the remuneration committee each year. Conditional awards were made to the wider executive team through awards made in May and November as nil-cost options. Details of executive directors' historical awards are set out in Appendix A on page 83.

Vesting of shares to an individual is conditional upon the achievement of the cumulative three-year growth in group PBT. 20 per cent of an award vests if Mothercare's three-year PBT growth is 5 per cent per annum and 100 per cent of an award will vest if Mothercare's three-year PBT per share growth is at least 15 per cent each year, with straight-line vesting in between. Dividends accrue and are paid on shares that vest. If the performance threshold of 5 per cent per annum PBT per share growth is not met the award lapses. PBT per share was chosen as the remuneration committee believes that PBT is a good measure of Mothercare's financial performance; it is highly visible internally, and is regularly monitored and reported.

During the three-year performance period to 31 March 2010, Mothercare's profit before tax increased from £22.6 million to £37.2 million, representing a cumulative annualised percentage growth of 14.2 per cent. Accordingly, the awards granted in 2007 vested at 93.6 per cent of the total awards available under the scheme, resulting in the issue of 503,999 shares. Details of the three-year performance to March 2011 will be set out in next year's annual report.

In September 2008, the remuneration committee and the board approved an extension of the PSP to key executives in the overseas markets in which it operates, principally China, Hong Kong and India. The nature of the securities laws in certain countries makes it impractical for individuals to receive shares in the Company upon vesting of conditional awards as envisaged by the PSP scheme. Consequently the scheme approved for overseas participants grants conditional awards over 'notional shares' in the Company. These notional shares are hedged within the employee trust such that individual participants may receive a cash award equivalent to the growth in value of the notional shares under the award. In all other respects (including maximum award limits, performance conditions etc) the overseas scheme is equivalent to that operated for UK-based executives.

The Executive Incentive Plan (EIP)

The group's executive incentive plan was approved by shareholders in 2006. Under the EIP, selected senior executives are eligible to receive a percentage of 'surplus value created' over a three-year performance period. 'Surplus value created' is defined as group TSR outperformance of the FTSE All-Share General Retailers Index (Index) multiplied by the average market capitalisation of the group over the three-month period immediately prior to the start of the financial year in which the grant date falls. The committee believes this relative TSR performance condition has, and continues to provide, very strong alignment with shareholders' long-term interests, as well as supporting the motivation and retention of a high-performing management team.

At the vesting date, the committee retains discretion to defer up to 50 per cent of an award into shares for a further year. Following a minor refinement approved by the committee to the EIP in 2009, in order to provide additional alignment with shareholders' interests, awards from 2009 onwards will be settled wholly in shares (rather than up to 50 per cent as provided in the original scheme). The EIP was also amended to allow an executive to extend the period of deferral by awarding the deferred element as nil-cost options.

EIP awards have been made in each year since inception in 2006. The award criteria made to executive directors is set out in EIP Table 1 in Appendix A (page 84). As previously explained for EIP awards made in June 2007 only, if during the performance period ending June 2010, the annualised pre-tax profit synergies from the combination of the Mothercare and Chelsea Stores Holdings Limited businesses (acquired in June 2007) were to be at least £12 million (50 per cent more than the pre-tax synergies of £8 million identified in the circular and prospectus, as issued by the group dated 25 May 2007), the percentage of surplus value in EIP Table 2 will apply. The additional pre-tax profit synergies achieved were ahead of this target.

During the three-year performance period to 27 March 2010, Mothercare's total shareholder return outperformed the FTSE General Retailers Index by 120 per cent (Mothercare +88 per cent, General Retailers -32 per cent) and its underlying profit before interest and tax increased by 64.6 per cent.

With regard to the EIP award that vested in March 2010, the remuneration committee decided to exercise its discretion to defer the maximum 50 per cent of the vested amount into shares. These share awards will not be released until July 2011 and therefore the value of the deferred shares to which the executive directors will be entitled will not be known until that date. Details are set out in Appendix A on page 84. Details of the three-year performance to 26 March 2011 will be set out in next year's annual report.

Remuneration report

continued

The Executive Share Option Scheme (ESOS)

The Mothercare plc 2000 Share Option Plan

Following approval of the PSP, no options were granted under the Mothercare 2000 Share Option Plan during the year.

Shareholding guidelines

Executive directors are expected to build up a shareholding equal to 100 per cent of their basic salaries by retaining at least half of the post-tax gains made under any long-term incentive in Mothercare shares.

Service contracts

Executive directors

Executive directors' service contracts are rolling contracts that require 12 months' notice by either the Company or executive to terminate the contract.

Ben Gordon commenced employment with the group on 2 December 2002. His service agreement provides for liquidated damages on termination by the group for basic salary equivalent to the unexpired portion of the notice period and the fair value of the benefits to which he may be entitled, including pension credits but not bonus or long-term incentives. Neil Harrington commenced employment with the group on 30 January 2006. His service contract may be terminated on 12 months' notice.

Non-executive directors

Ian Peacock is entitled to three months' salary on termination of his employment contract dated 31 October 2002 by the group. Bernard Cragg, Richard Rivers, David Williams and Amanda Mackenzie have service agreements with the group that may be terminated upon one month's notice. Their service agreements were entered into on 24 July 2002, 26 March 2003, 27 May 2008, 2 July 2004 and 1 January 2011 respectively.

A review of the compensation arrangements of the chairman and non-executive directors was carried out by the committee in 2009/10 using independent remuneration consultants. Accordingly with effect from 1 April 2010, the annual salary/fees payable to the chairman were increased to £180,000, the senior non-executive director to £60,000, the chairman of the remuneration committee to £55,000 and the other non-executive directors to £50,000.

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 26. An executive director may take one external appointment as a non-executive director, subject to the approval of the board. The director may retain any fees from such a role. Ben Gordon is a non-executive director of Britvic plc, from which he currently receives an annual fee of £48,000.

Pension arrangements

Ben Gordon and Neil Harrington are members of the Mothercare Executive Pension Scheme. Ben Gordon's pension accrues at the rate of one forty-fifth of salary (subject to a notional earnings cap of £185,400 in 2010/11) for each year of pensionable service. The normal retirement age is 60 years, increasing to 65 years for service accruing post 1 April 2007. Contributions by Ben Gordon are set at 8 per cent of pensionable salary. Neil Harrington participates in the pension builder career average section of the Mothercare Executive Pension Scheme. Pension accrues at one forty-fifth of pensionable salary (subject to a notional earnings cap of £185,400 in 2010/11). The normal retirement age is 65 years. Contributions by Neil Harrington are set at 8 per cent of pensionable salary.

The committee regularly reviews the financial impact to the Company of pension provision. Given the regulatory changes expected in October 2012 a further review of the effect of these changes on the Company pension schemes is under way. In the meantime, in order to control the cost of pensions, the group has agreed with the Trustees of the Executive Pension Scheme the introduction of a capped accrual section which limits annual accrual in excess of inflation to £3,125 per annum and has agreed with the individuals affected to pay a salary supplement of up to £16,000 per annum to compensate for their reduced accrual.

Those directors and senior executives subject to the earnings cap and who participated in the FURBS arrangements now receive a cash salary supplement equivalent to the former FURBS payment, for investment in an investment vehicle of their own choice. Further pension detail is given in Table 2 of Appendix A on page 83.

For further details of the pension provision within the group during the year, see the directors' report on page 28.

For further details on the cost of pensions to the group, including the statements required by IAS 19, see note 28.

Emoluments and compensation payments

The emoluments (including pension contributions) for executive directors for the year ended 26 March 2011 and the salaries paid to the management level below the board are set out in Tables 1A and 1B of Appendix A on page 82.

Beneficial interests of the directors

The beneficial interests of the directors in the share capital of the group are set out in the table below. This table does not show outstanding option or incentive awards. These are dealt with in the relevant section of this report.

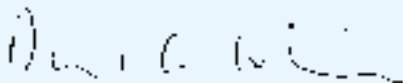
	Interest held at 26 March 2011 (number)	Interest held at 27 March 2010 (or appointment if later) (number)
Ian Peacock	210,709	210,709
Ben Gordon	425,329	421,949
Bernard Cragg	20,000	20,000
Neil Harrington	66,022	59,642
Richard Rivers	8,000	5,000
David Williams	38,300	30,375
Amanda Mackenzie	–	–

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 3,151 Mothercare shares in trust on 26 March 2011 (3,151 on 27 March 2010). A separate trust, the Mothercare Employee Trust, held 2,458,079 shares on 26 March 2011 (2,709,453 shares on 27 March 2010).

The executive directors are also deemed to have an interest in shares held by Mothercare Employees' Share Trustee Limited and the Mothercare Employee Trust as potential beneficiaries.

There have been no movements in directors' interests, beneficial or non-beneficial, between 26 March 2011 and 17 May 2011.

Approved by the board on 17 May 2011 and signed on its behalf by:



David Williams

Chairman, remuneration committee