

**This document is important and requires your immediate attention.**

It contains the resolutions to be voted on at a General Meeting of the Company on **Thursday, 20th December 2012 at 3.00pm.**

If you are in any doubt about the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 (or if you are resident outside the United Kingdom, an appropriately qualified independent financial adviser).

If you have sold or transferred all of your shares in Mothercare plc, please send this document and the accompanying documents at once to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

## MOTHERCARE PLC NOTICE OF GENERAL MEETING 2012

mothercare

Dear Shareholder

### General Meeting 2012

A General Meeting of the Company will be held at the Company's head office at Cherry Tree Road, Watford, Hertfordshire, WD24 6SH on **Thursday 20 December 2012 at 3.00pm** (the "General Meeting") and we look forward to meeting as many shareholders as possible. The formal Notice of the General Meeting is set out on page 2 of this document. There are two Resolutions which shareholders are asked to approve at the General Meeting.

Resolution 1 deals with the establishment of a new Long-Term Incentive Plan (the "LTIP"). Further details in relation to the LTIP are provided in the Explanatory Notes to the Proposed Resolutions set out on page 3 of this document and in the Key Terms of the Proposed LTIP set out in the Appendix to this document.

Resolution 2 deals with the election of Mr Lee Ginsberg as a non-executive director of the Company. Lee Ginsberg was appointed as a non-executive director after the date of the notice convening the last Annual General Meeting of the Company and his appointment therefore needs to be approved by the shareholders.

Please note that if you intend to arrive by car there is limited car parking available on site.

### Shareholder Communications

If you elected to receive an email communication you should have already received your email and be aware that the Notice of General Meeting is available on our website at [www.mothercareplc.com/agm-details](http://www.mothercareplc.com/agm-details). **If you would prefer in future to receive a printed copy of the Notice of Meeting and Form of Proxy, please contact the Company's Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.** We will be happy to provide it to you.

We wish to encourage as many shareholders as possible to take advantage of the ability to cast their votes on the resolutions before the General Meeting by the use of the electronic proxy appointment service offered by the Registrars, Equiniti Limited, at [www.sharevote.co.uk](http://www.sharevote.co.uk). All such votes must be received by 3.00pm on 18 December 2012. Using this facility streamlines procedures for the General Meeting, helps meet our environmental targets and reduces costs.

The directors believe that the resolutions to be proposed at the General Meeting are in the best interests of the Company and the shareholders as a whole. The directors therefore recommend shareholders to vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings representing approximately 0.62 per cent of the issued share capital of the Company.

For those who are unable to attend the General Meeting in person, but do have a question to put to the board, please submit your questions via email to [investorrelations@mothercare.com](mailto:investorrelations@mothercare.com). I will respond in writing to questions received.

Yours sincerely



**Alan Parker CBE**  
Chairman

Enc: Notice of General Meeting (for those elected to receive a printed copy)  
Form of Proxy and return envelope (for those elected to receive a printed copy)



MOTHERCARE PLC • CHERRY TREE ROAD • WATFORD • HERTFORDSHIRE • WD24 6SH

REGISTERED IN ENGLAND NO 1950509

# Notice of General Meeting

Notice is hereby given that a General Meeting of Mothercare plc (the 'Company') will be held at Mothercare plc, Cherry Tree Road, Watford, Hertfordshire, WD24 6SH on **Thursday 20 December 2012 at 3.00pm** (the "**General Meeting**"). You will be asked to consider and if thought fit to pass the ordinary resolutions below.

## As Ordinary Resolutions:

- 1 To approve the establishment of a Long-Term Incentive Plan (the "**LTIP**"), the principal terms of which are summarised in the Appendix to this Notice and are produced to the General Meeting and initialled by the Chairman for the purposes of identification; and to authorise the directors of the Company to do all acts and things necessary to establish and carry the LTIP into effect.

- 2 To elect Mr Lee Ginsberg, who was appointed as a non-executive director of the Company after the notice of the last Annual General Meeting was sent to shareholders, as a director of the Company.

By order of the Board



Tim Ashby  
Group General Counsel and Company Secretary  
Cherry Tree Road, Watford, Hertfordshire, WD24 6SH  
19 November 2012

Please see the explanatory notes to the Notice of General Meeting below.

## Notes to the Notice of General Meeting

- 1 An explanation of the business to be conducted at the General Meeting is given on page 3 of this Notice.
- 2 Only those shareholders on the register of members of the Company as at 6.00pm on 18 December 2012 (or, in the event of any adjournment, at 6.00pm on the day, two days before the reconvened meeting) will be entitled to attend or vote at the General Meeting and they may only vote in respect of the number of shares registered in their name at the relevant time. Change to entries on the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend or vote at the General Meeting.
- 3 Any member attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the General Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.
- 4 A member is entitled to appoint another person as his proxy to exercise all or any of his rights to attend, to speak and to vote at the General Meeting and any adjournments thereof. A member may appoint more than one proxy in relation to the General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A proxy need not be a member of the Company. A form for appointing a proxy is enclosed with this Notice for shareholders receiving hard copy. To be effective, the form of proxy must be completed and reach the Company's registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA not later than 3.00pm on 18 December 2012. You may also submit your proxy electronically; see your proxy card for details of how to register your vote. Completion of a form of proxy, other such instrument or any CREST Proxy Instruction (as described in paragraph 7) will not preclude a member from attending and voting in person at the General Meeting. If you require additional forms of proxy, please contact the Registrars of the Company on +44 (0) 121 415 7042 if calling from outside the UK or if within the UK on 0871 384 2013 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary). Lines are open 08:30 to 17:30, Monday to Friday.
- 5 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 6 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of the same powers as the corporation could exercise if it were an individual member provided they do not do so in relation to the same shares.
- 7 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for

the General Meeting and any adjournments thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or relates to an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (CREST ID RA19) no later than 3.00pm on 18 December 2012. For these purposes, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. No messages received through the CREST network after this time will be accepted. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s)) take(s) such actions as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning limitation of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. The CREST Manual can be reviewed at <http://www.euroclear.com/CREST>.

- 8 The Company cannot accept responsibility for loss or damage arising from the opening or use of any emails or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to opening or use. Any electronic communication received by the Company and/or Equiniti, including the lodgement of an electronic form of proxy, that is found to contain a computer virus will not be accepted.
- 9 Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement

## Notes to the Notice of General Meeting continued

setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and report were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholder requesting any such website publication to pay its expenses in complying with section 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

- 10 A person who is not a shareholder of the Company, but has been nominated by a shareholder to enjoy information rights in accordance with section 146 of the Companies Act 2006 (a "nominated person") does not have a right to appoint any proxy. Nominated persons may have a right under an agreement with the shareholder to be appointed (or to have someone appointed) as a proxy for the General Meeting. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under an agreement with the relevant shareholder to give instructions as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraph 4 above does not apply to nominated persons. The rights described in paragraph 4 can only be exercised by shareholders of the Company. If you have been nominated to receive general shareholder communications directly from the Company, it is important to remember that your main contact in terms of your investment remains the registered shareholder or custodian or broker who administers the investment on your behalf. Therefore, any changes or queries relating to your personal details and holding (including any administration) must continue to be directed to your existing contact at your investment manager or custodian. The Company cannot guarantee to deal with matters

that are directed to them in error. The only exception to this is where the Company, in exercising one of its powers under the Companies Act 2006, writes to you directly for a response.

- 11 The following documents will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY, Monday – Friday (except for public holidays) from the date of this Circular until the time of the General Meeting and at the Company's registered office being the place of the General Meeting, from 15 minutes before the General Meeting until it ends:
- (i) a copy of the Mothercare Long-Term Incentive Plan; and
  - (ii) a copy of the letter of appointment of Mr Lee Ginsberg.
- 12 As at 16 November 2012 (being the last practicable business day prior to the publication of this Notice) the Company's issued share capital consisted of 88,645,221 ordinary shares of 50 pence each, carrying one vote each. There were no shares held in treasury. Therefore the total voting rights in the Company as at that date were 88,645,221.
- 13 A copy of this Notice and other information required by section 311A of the Companies Act 2006 can be found at <http://www.mothercareplc.com>.
- 14 Except as provided above, members who have general queries about the General Meeting should use the following means of communication (no other means of communication will be accepted):
- calling our shareholder helpline on +44 (0) 121 415 7042 if calling from outside the UK or if within the UK on 0871 384 2013 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary). Lines are open 08:30 to 17:30, Monday to Friday;
  - by writing to Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA; or
  - by sending an email to [investorrelations@mothercare.com](mailto:investorrelations@mothercare.com)

You may not use any electronic address provided in this Notice or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

## Explanatory Notes to the Proposed Resolutions

The Ordinary Resolutions will be passed if the votes cast for the resolutions are more than those cast against.

### As Ordinary Resolutions:

#### Resolution 1: Approval of long-term incentive plan

Resolution 1 seeks your approval for the adoption of a new Long-Term Incentive Plan (the "LTIP"). The rationale for the introduction of the LTIP is to:

- provide the opportunity for executive directors and senior employees to earn highly competitive levels of reward for exceptional delivery of the Transformation and Growth plan;
- ensure that the Company can retain and attract talent of an appropriate calibre to execute the business strategy in a highly challenging environment;
- tie rewards to performance metrics that are closely aligned to the Company's strategic objectives and achieving the targets chosen represents successful measure of performance against these strategic objectives; and
- reflect best practice guidelines, wherever possible.

Further details in relation to the key terms of the LTIP are set out in the Appendix to this Notice.

#### Resolution 2: Election of director

Lee Ginsberg was appointed to the Board as a non-executive director on 2 July 2012 after the date of the notice convening the last Annual General Meeting with such appointment subject to ratification by shareholders at a general meeting of the company (in accordance with the Company's Articles of Association). He consequently retires from the Board and offers himself for election by the shareholders at the General Meeting.

Mr Ginsberg is Chief Financial Officer of Domino's Pizza Group plc, a position he has held for eight years. Prior to that Mr Ginsberg was Group Finance Director for Health Club Holdings Limited, formerly Holmes Place plc, where he also served for 18 months as Deputy Chief Executive. Lee is a chartered accountant by profession.

# Letter from The Chairman of The Remuneration Committee

Dear Shareholder,

In this letter and attached Appendices, we provide you with an explanation of Resolution 1 set out in the Notice convening the General Meeting, which is being submitted to shareholders in connection with the proposed introduction of a new Long-Term Incentive Plan (the "LTIP").

## Background

Since the start of the year the Remuneration Committee at Mothercare plc has been reviewing its executive incentive arrangements to ensure that the Company has in place a remuneration policy and structure which supports the Company's strategy for the next three years as set out in our Transformation and Growth plan. A key component of this policy is an appropriate long term incentive plan.

The Remuneration Committee and its advisers conducted a review of the executive remuneration arrangements currently in place. We found that they are inappropriate given the current market and the need to recruit and retain a new management team to execute the Transformation and Growth plan. Further, given Mothercare's current position, we believe that now is an opportune time to break with the past and to put in place arrangements which are fit for purpose and reflect Mothercare's plans for the future.

Whilst considering the structure and parameters of the LTIP we have consulted with a number of our shareholders and have taken their views into account when designing the LTIP. We believe that the LTIP being proposed strikes a balance between what is fair and motivating for executives, and performance levels that are justifiable to shareholders given the current share price, the Company's strategic priorities, and market expectations.

## Design principles

The LTIP is a crucial tool in facilitating the recruitment and retention of a first class management team for the Company and this is vital to the success of the three year Transformation and Growth plan.

In designing the LTIP, the Remuneration Committee has formulated and had regard to the following principles:

- Senior executives and key employees will be given the opportunity to earn highly competitive levels of reward for exceptional delivery of the Transformation and Growth plan over the medium to long term. This is subject to the proviso that excessive or undeserved remuneration is not paid and that remuneration levels must be earned and regard given to the financial health of the Company;
- The Company needs to have a competitive advantage in retaining and attracting talent of an appropriate calibre to execute the business strategy in an extremely challenging environment. Recruitment of members of the executive team is ongoing;

- The performance metrics selected for short- and long-term incentives will be closely aligned to the Company's strategic objectives and achieving the targets chosen represents successful performance against these strategic objectives;
- Remuneration should include mechanisms to address risks faced by the business; and
- The proposed structure should, where possible, be designed in accordance with best practice guidelines and with consideration for prevailing market sentiments around executive remuneration.

In addition, cognisance has been given to the need to honour the contractual terms agreed with Simon Calver upon his appointment as CEO on 30 April 2012.

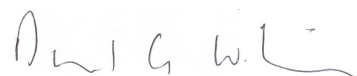
## Board recommendation

The Board has consulted extensively with its major shareholders on the detailed terms and conditions of the LTIP and the new remuneration policy as a whole. The final terms and conditions of the LTIP reflect changes requested by shareholders during the process. These changes predominantly relate to the levels of award and the calibration of vesting and performance targets.

The Board believes that the new LTIP will give the Company a flexible and powerful tool with which to recruit and retain those employees of exceptional talent and genuinely incentivise them to successfully execute the Transformation and Growth plan. In addition, the LTIP is designed to be compliant with best practice corporate governance and sustainability of strong corporate performance over the longer term.

The Board considers the LTIP to be in the best interests of the Company and shareholders as a whole and unanimously recommends that you vote in favour of Resolution 1.

Yours faithfully,



David Williams

**Chairman of the Remuneration Committee**

## Notes:-

Copies of the Mothercare plc 2012 Long-Term Incentive Plan ("LTIP") Rules will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, during normal business hours on Monday to Friday each week (public holidays excepted) from the date of this document until the time of the meeting, and at the registered office of the Company, which is also the venue of the General Meeting from 15 minutes before the General Meeting until it ends.

# Appendix 1 Overview of the remuneration policy of the company and key terms of the Mothercare plc 2012 long-term incentive plan

## Introduction

The implementation of the new LTIP is an essential component of the Company's remuneration policy. The new structure:

- Provides the opportunity for executive directors and senior employees to earn highly competitive levels of reward for exceptional delivery of the Transformation and Growth plan over the medium to long term, subject to the proviso that excessive or undeserved remuneration should not be paid;
- Ensures that the Company can retain and attract talent of an appropriate calibre to execute the business strategy in a highly challenging environment, reflecting the future aspirations of the Company;
- Features performance metrics that are aligned to the Company's strategic objectives set out in the Transformation and Growth plan and achieving the metrics represents successful performance against these strategic objectives; and
- Reflects best practice guidelines, wherever possible.

## Current remuneration policy

The following table sets out the remuneration structure for the Company:

Component	Policy
Salary	Set by reference to the median rate paid by a retailer led comparator group. Future increases to be based on individual and corporate performance, as well as underlying wage inflation in the group. Salary levels required to attract high calibre individuals to join executive team will be considered on a case by case basis.
Benefits and Pension	Market competitive levels of benefit and pension provision.
Annual bonus	Maximum bonus opportunity of 125% of salary for CEO and 100% of salary for other senior executives. Performance conditions directly aligned to strategic and operational targets: <ul style="list-style-type: none"> <li>• 75% of the bonus based on group profit before tax</li> <li>• 25% relating to strategic measures with regard to customer feedback and employee engagement scores</li> </ul> Cashflow underpin is applicable. 30% of any bonus paid to executive directors and executive committee members will be deferred into shares for 3 years. These deferred shares will be subject to clawback. Remuneration Committee has discretion in exceptional circumstances to reduce or not pay a bonus if the Committee considers: <ul style="list-style-type: none"> <li>• that the bonus is not affordable given prospects of the Company and available cash flow; or</li> <li>• that there is a significant misalignment between attainment of the bonus targets and the underlying sustainable performance improvement of the Company.</li> </ul>
LTIP	As described below

## Key terms of the LTIP

The following table sets out the key terms of the LTIP and rationale in further detail:

Feature	Detail	Rationale												
Overview	<ul style="list-style-type: none"> <li>• An annual award of nil-cost options which vest based on the achievement of stretching corporate performance metrics supporting the execution of the Transformation and Growth plan.</li> <li>• Vesting of any share awards is conditional upon the turnaround of the UK business, a minimum shareholding requirement being met and sustainable corporate performance over the longer term.</li> </ul>	<ul style="list-style-type: none"> <li>• Simple structure.</li> <li>• the Company has a recognisable and competitive reward structure with which to attract, retain and motivate the executive team.</li> </ul>												
Award levels	<ul style="list-style-type: none"> <li>• Maximum individual limit of 300% of salary applicable in exceptional circumstances only. The initial award for the CEO of 300% of salary.</li> <li>• The following table sets out proposed award levels for other executives, and for the CEO in subsequent years: <table border="1" data-bbox="355 1794 739 2025"> <thead> <tr> <th>Level</th> <th>% of Salary</th> </tr> </thead> <tbody> <tr> <td>CEO</td> <td>200%</td> </tr> <tr> <td>CFO</td> <td>175%</td> </tr> <tr> <td>Executive Committee</td> <td>150%</td> </tr> <tr> <td>Senior Executives</td> <td>55%</td> </tr> <tr> <td>Key employees</td> <td>40%</td> </tr> </tbody> </table> </li> <li>• For initial awards under the LTIP, the number of shares determined using average share price over the three month period ending with the CEO's appointment (that is February to April 2012). For subsequent awards, the closing share price in a prescribed period prior to the date of grant will be used to determine the number of shares subject to an award.</li> </ul>	Level	% of Salary	CEO	200%	CFO	175%	Executive Committee	150%	Senior Executives	55%	Key employees	40%	<ul style="list-style-type: none"> <li>• CEO initial award considered necessary to recruit him and recruitment of an executive is one of the exceptional circumstances in which an award of this level can be made.</li> <li>• Ongoing award levels highly competitive and reflect need to retain existing talent and ongoing need to attract new talent and support reward principle of exceptional pay for exceptional performance.</li> <li>• Using the 3 month average share price to determine the number of shares for initial awards reflects when the Transformation &amp; Growth plan was put into action, and the terms of the CEO's appointment.</li> </ul>
Level	% of Salary													
CEO	200%													
CFO	175%													
Executive Committee	150%													
Senior Executives	55%													
Key employees	40%													

Feature	Detail	Rationale																												
Performance Conditions	<p>These are the performance conditions:</p> <ul style="list-style-type: none"> <li>The UK business must break even in FY15 or FY16 (the UK PBT underpin) (details set out in "Vesting" below).</li> <li>The financial health of the Company must be deemed to be satisfactory by the Committee. In assessing the underlying financial health of the Company, the Committee will take into account, amongst other factors the Company's: <ul style="list-style-type: none"> <li>cash flow;</li> <li>level of international profits;</li> <li>return on capital employed;</li> <li>interaction between share price and Group PBT.</li> </ul> </li> <li>FY15 Group PBT must be at least £23 million.</li> <li>Executives will earn up to 50% of the award if the share price reaches the targets shown in the table below, and will earn up to 50% of the award if FY15 Group PBT reaches the targets shown in the table below:</li> </ul> <table border="1"> <thead> <tr> <th colspan="2">Share price</th> <th colspan="2">Group PBT</th> </tr> <tr> <th>FY15 share price</th> <th>Vesting (% of max)</th> <th>FY15 Group PBT</th> <th>Vesting (% of max)</th> </tr> </thead> <tbody> <tr> <td>£3</td> <td>0%</td> <td>£23m</td> <td>0%</td> </tr> <tr> <td>£4</td> <td>30%</td> <td>£34m</td> <td>30%</td> </tr> <tr> <td>£5</td> <td>60%</td> <td>£45m</td> <td>60%</td> </tr> <tr> <td>£6</td> <td>90%</td> <td>£60m</td> <td>90%</td> </tr> <tr> <td>£7</td> <td>100%</td> <td>£70m</td> <td>100%</td> </tr> </tbody> </table> <p>The share price and PBT elements will be measured independently.</p>	Share price		Group PBT		FY15 share price	Vesting (% of max)	FY15 Group PBT	Vesting (% of max)	£3	0%	£23m	0%	£4	30%	£34m	30%	£5	60%	£45m	60%	£6	90%	£60m	90%	£7	100%	£70m	100%	<ul style="list-style-type: none"> <li>Restoring the UK business to profitability is a key element of the Transformation and Growth plan. The Remuneration Committee does not consider it acceptable for there to be any payout under the LTIP before this core element has been achieved.</li> <li>Performance conditions have been selected which support the Transformation and Growth plan and a measure of success of its execution and ensures that level of vesting is reflective of underlying corporate performance.</li> <li>Full vesting will occur only where exceptional performance levels have been achieved and significant shareholder value created. Maximum vesting requires performance in excess of the Transformation and Growth plan.</li> </ul>
Share price		Group PBT																												
FY15 share price	Vesting (% of max)	FY15 Group PBT	Vesting (% of max)																											
£3	0%	£23m	0%																											
£4	30%	£34m	30%																											
£5	60%	£45m	60%																											
£6	90%	£60m	90%																											
£7	100%	£70m	100%																											
Vesting	<ul style="list-style-type: none"> <li>The performance conditions set out above will be tested in relation to the FY15 results to determine what percentage of the shares subject to the award have been earned. If the UK business breaks even in FY15, then half of those shares will vest immediately following the announcement of the FY15 financial results; the remaining half will vest 12 months later.</li> <li>If the UK business does not break even in FY15, then nothing will vest in FY15. Instead, if the UK business breaks even in FY16, then all the shares that have been earned will vest immediately following the announcement of the FY16 results.</li> <li>If the UK business has not broken even by FY16 then all awards will lapse.</li> </ul> <p>All unvested awards are subject to clawback (see below).</p>	<ul style="list-style-type: none"> <li>Maximum vesting will occur only where exceptional performance levels have been achieved and significant shareholder value created.</li> <li>Maximum vesting requires performance in excess of achieving the Transformation and Growth plan.</li> </ul>																												
Claw back	<p>The Remuneration Committee has the power to reduce the vesting level of awards in specified circumstances:</p> <ul style="list-style-type: none"> <li>Material misstatement of financial statements.</li> <li>Gross misconduct/fraud of participant.</li> <li>Where performance which has driven vesting is clearly unsustainable.</li> </ul>	<ul style="list-style-type: none"> <li>Claw back provisions have been adopted in line with emerging market practice and corporate governance principles. They also meet the objective of aligning remuneration with business risks.</li> <li>The proposal goes further than market practice by extending this to include the "clearly unsustainable" provision. Evidence that performance is clearly unsustainable would include, for example, a significant fall in profits in the year after the 3 year performance condition had been assessed.</li> <li>For future awards, consideration will be given as to how the sustainability issue can be addressed through longer deferral and/or holding periods.</li> </ul>																												
Dividend equivalents	<ul style="list-style-type: none"> <li>Executives are entitled to dividend equivalents which accrue on the shares subject to the Award over the performance period.</li> </ul>	<ul style="list-style-type: none"> <li>This encourages executives to consider the Company's dividend policy as well as share price growth.</li> </ul>																												
Termination of employment	<ul style="list-style-type: none"> <li>Awards will lapse unless the Remuneration Committee determines otherwise. In applying discretion the Remuneration Committee will apply time pro rating and testing the performance conditions either on cessation or on the usual vesting date.</li> </ul>	<ul style="list-style-type: none"> <li>In line with best practice corporate governance.</li> </ul>																												
Change of control	<ul style="list-style-type: none"> <li>Awards will vest on a change of control subject to the proportionate satisfaction of the performance conditions. The Remuneration Committee has discretion to apply time pro rating to award.</li> <li>In respect of the initial award, where a change of control occurs within the first 12 months of the performance period, any time pro rating calculation will be based on 12 months having been served.</li> </ul>	<ul style="list-style-type: none"> <li>In line with best practice corporate governance.</li> </ul>																												

Feature	Detail	Rationale
Shareholding requirement	<ul style="list-style-type: none"> <li>Vesting of awards for CEO, CFO and Executive Committee members is conditional upon the executive building up a minimum shareholding requirement within 3 years.</li> <li>Requirement after 3 years is 100% of salary for CEO, 50% for CFO and 25% for Executive Committee member.</li> <li>25% of the shareholding requirement must be met before the end of 1 year and 50% before the end of 2 years. At the end of 1 year and 2 years the degree of compliance will be checked.</li> <li>Where shareholding requirement is not met at the end of year 1, year 2 or year 3, vesting level will be reduced pro rata. For full vesting, the shareholding requirement must be met in full.</li> <li>The guideline increases to 150% for CEO, 100% for CFO and 50% for Executive Committee member thereafter. This can be funded through retention of at least 50% of the net of tax proceeds of vested awards.</li> </ul>	<ul style="list-style-type: none"> <li>The requirement to build up a personal shareholding ensures that there is some element of executives having an investment in the Company. Not complying with this requirement will have direct consequences on vesting levels.</li> </ul>
Dilution	<ul style="list-style-type: none"> <li>10% in any ten year rolling period and 5% for executive arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>In line with corporate governance best practice.</li> </ul>

### Financial Impact

This section illustrates the cost and benefit of the LTIP in terms of the:

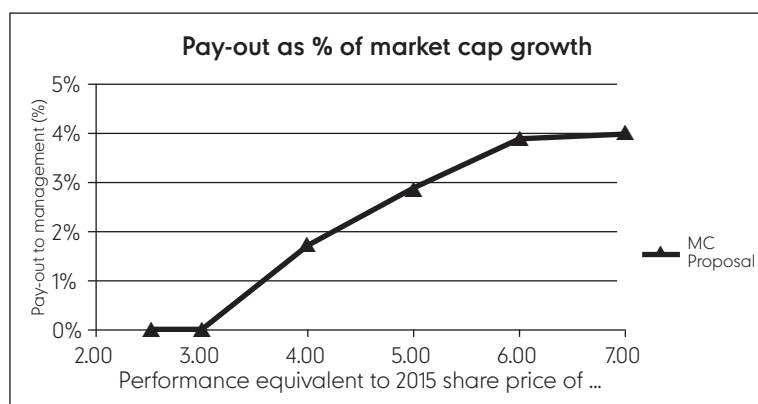
- potential value delivered to the Executive Directors and the total potential value for all participants;
- benefit to shareholders; and
- potential dilutive impact of the LTIP.

### Potential Value

The following table shows the potential payouts under the proposed LTIP under different performance scenarios, assuming that the share price and PBT performance outcomes are perfectly aligned and that the shareholding requirements are met in full. (For the CFO, we have assumed a salary of £265,000 based on previous incumbent, and for the executive committee members, senior executives and others, an average salary for the grade).

FY 15 PBT	£23m	£34m	£45m	£60m	£70m
<b>FY15 Share Price</b>	<b>£3.00</b>	<b>£4.00</b>	<b>£5.00</b>	<b>£6.00</b>	<b>£7.00</b>
<b>Vesting</b>	<b>0%</b>	<b>30%</b>	<b>60%</b>	<b>90%</b>	<b>100%</b>
Pay-out (£m)					
CEO	Nil	0.900	2.250	4.050	5.250
CFO	Nil	0.278	0.696	1.252	1.623
Executive Committee	Nil	0.186	0.466	0.838	1.087
Senior executives	Nil	0.044	0.111	0.199	0.258
Others	Nil	0.023	0.058	0.105	0.136

To put the potential payouts into context, the chart below shows the total payouts to the executives at different share price levels as a percentage of the growth in market cap.



### Dilution

The LTIP will operate within the ABI recommended limits of 10% over ten years for all schemes and 5% for discretionary schemes. Market purchase shares would be used where necessary to keep dilution within these limits. The table below shows the annual dilution impact assuming different share prices and 100% vesting of awards. As the share price recovers, the dilution for future awards declines rapidly.

Share price at award	£2.00	£4.00	£6.00	£7.00
<b>Maximum dilution</b>	2.9%	1.3%	1.0%	0.8%

## Appendix 2 Terms of the LTIP

### Operation

The Remuneration Committee, the members of which are non-executive directors, supervises the operation of the LTIP in respect of the executives of the Company.

### Eligible employees

Any employee of the Company is eligible to participate in the LTIP however the actual intended participation will be limited to the executive directors and senior manager level employees.

Non-executive directors are not eligible to participate in the LTIP.

### Grant and vesting of awards

Awards will normally be granted to each participant within a 42 day period following the date of publication of the annual results of the Company.

On the grant of Awards the Remuneration Committee will determine the maximum face value of the Awards that can be granted to a participant in any calendar year. The normal maximum face value of Awards that can be granted is 200% of salary. The Remuneration Committee has discretion to grant up to 300% of salary in exceptional circumstances, including on the recruitment of a new executive director.

The vesting of Awards will be subject to continued employment, satisfaction of the performance targets and any other terms or conditions determined at grant.

### Limits

The Company may issue 10% of its Shares within a ten year period to satisfy Awards to participants in the LTIP and any other Share plan operated by the Company under which Shares are issued (5% for executive plans).

The Remuneration Committee will be monitoring the issue of Shares during the ten year period. It should be noted that where the Company uses treasury Shares (if applicable) to satisfy its obligations under Share arrangements they shall be added to the number of Shares issued for the purposes of this limit.

### Taxation

The vesting of Awards or exercise of Awards is conditional upon the participant paying any taxes due.

### Allotment and transfer of Shares

Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the Shares are acquired. Application will be made for the admission of the new Shares to be issued to the Official List of, and to trading on, the relevant Exchange following the vesting and/ or exercise of Awards.

### Variation of Share Capital

On a variation of the capital of the Company, the number of Shares subject to Awards and their terms and conditions may be adjusted in such manner as the Remuneration Committee determines and the advisors of the Company confirm to be fair and reasonable.

### Duration

The LTIP will operate for a period of ten years from the date of approval by shareholders. The Remuneration Committee may not grant Awards under the LTIP after this date.

### Amendments

Amendments to the rules of the LTIP may be made at the discretion of the Remuneration Committee. However, the provisions governing eligibility requirements, equity dilution, share utilisation, individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital together with the limitations on the number of Shares that may be issued cannot be altered to the advantage of participants without prior shareholder approval. This requirement does not apply to minor amendments to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the group. However, participants should be notified of any amendment which would materially detrimentally affect their existing rights and such amendments must be approved by the majority of participants notified.

The Remuneration Committee may add to, vary or amend the rules of the LTIP by way of a separate schedule in order that the LTIP may operate to take account of local legislative and regulatory treatment for participants or the relevant group company, provided that the parameters of these arrangements will provide no greater benefits than the rules of the LTIP as summarised above.

### General

Awards and any other rights granted pursuant to the LTIP are non-pensionable.

### Non-transferability of Awards

Awards are not transferable except in the case of a participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the participant or by will or the laws of descent and distribution.

**Note:** This Appendix 2 summarises the main features of the LTIP but does not form part of them and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY during usual office hours (Saturdays, Sundays and statutory holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the General Meeting and at the meeting itself and at the Company's registered office from 15 minutes before the time of the General Meeting.

The Directors reserve the right, up to the time of the meeting, to make such amendments and additions to the rules of the LTIP as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix 2.