

Governance: Directors' remuneration report

Approach to reward

The group aims to ensure that its remuneration arrangements attract and keep people of the right calibre in order to achieve corporate success and to enhance shareholder value. Its overall approach is to attract, develop, motivate and keep talented people at all levels, pay competitive salaries and benefits to its staff and encourage its staff to hold shares in the company. When pay levels are set, account is taken of the work that an employee does and what is paid in other companies for that work. The company seeks to reward its people fairly and give them the opportunity to increase earnings by linking pay to achieving business and individual performance targets.

Aggregate remuneration

During the year, the aggregate remuneration paid to all directors was £5,536,159 (2005/06: £4,376,580). This includes salaries, annual bonuses earned and accrued in the year ended 31 March 2007 but paid after the year end, the value of long-term incentives earned for the period ended 31 March 2006 and paid during the year and benefits in kind.

Non-executive directors (including the chairman)

A committee of the board decides the remuneration of the non-executive directors (other than the chairman). Its members are the chairman (Sir Richard Evans) and the executive directors, Philip Green, Simon Batey (to 28 July 2006), Charlie Cornish, Tom Drury (to 27 March 2007), Gordon Waters (to 24 December 2006) and Tim Weller (from 1 August 2006). The committee may take independent advice. It is also advised by the group's human resources director. The committee met once during the year to review the fees paid to non-executive directors. The remuneration committee decides the remuneration of the chairman.

Terms of appointment

Non-executive directors' appointments are for an initial period of three years. They are subject to reappointment at the first annual general meeting after their initial appointment and at an annual general meeting at least every three years thereafter if they are

to be reappointed. After nine years in office a non-executive director is required to seek reappointment each year at the annual general meeting. They do not have contracts of service. In the event of early termination, for whatever reason, they are not entitled to compensation.

Non-executive directors' letters of appointment can be inspected at the company's registered office and on the company's website at www.unitedutilities.com. The letters set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them. Table 14 summarises the terms of appointment for each non-executive director.

Policy statement on non-executive directors' remuneration

The company's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed each year when account is taken of the level of fees paid in companies of similar size and complexity. There are separate annual fees for the chairman, deputy chairman and the other non-executive directors. Additional fees are paid to the chairmen of the audit committee (Norman Broadhurst) and remuneration committee (David Jones). Non-executive directors do not participate in any annual bonus or incentive plan, the pension scheme, healthcare arrangements, the company's long-term incentive plans or employee share schemes. The company repays the reasonable expenses non-executive directors incur in carrying out their duties as directors.

Non-executive directors' remuneration

Non-executive directors' fees were increased on 1 September 2006. The base fee is £50,000 a year (2005: £47,250). The annual fee paid to Sir Peter Middleton, deputy chairman, is £90,000 (2005: £84,000). The additional fees paid to the chairmen of the audit and remuneration committees are £10,000 a year.

The chairman's fee increased to £220,000 a year (2005: £210,000). The next review of non-executive directors' fees will be in September 2007. Non-executive directors' remuneration for the year ended 31 March 2007 is set out in table 15.

Table 14: Non-executive directors' terms of appointment

	Date first appointed to board	Date of last appointment AGM in	Reappoint no later than AGM in	Notice period	Compensation upon early termination
Sir Richard Evans	01.09.1997	2004	2007	None	None
Sir Peter Middleton	01.01.1994	2006	2007	None	None
Dr Catherine Bell	19.03.2007	n/a	2007	None	None
Norman Broadhurst	01.04.1999	2005	2008	None	None
Paul Heiden	05.10.2005	2006	2009	None	None
David Jones	03.01.2005	2005	2008	None	None
Jane Newell	01.09.1996	2003	n/a	None	None
Andrew Pinder	01.09.2001	2005	2008	None	None
Nick Salmon	04.04.2005	2005	2008	None	None

Notes:

- Jane Newell resigned from the board at the AGM on 28 July 2006.
- Sir Peter Middleton will not be standing for re-election at the 2007 AGM.

Table 15: Non-executive directors' fees (audited information)

	Total fees	
	2007 £'000	2006 £'000
Sir Richard Evans	215.8	205.0
Dr Catherine Bell	1.7	–
Norman Broadhurst	58.9	56.3
Paul Heiden	48.9	23.1
David Jones	57.8	51.4
Sir Peter Middleton	87.5	82.3
Jane Newell	15.4	46.3
Andrew Pinder	48.9	93.8
Nick Salmon	48.9	45.9
John Seed	–	17.2
Total	583.8	621.3

Notes:

- Nick Salmon was appointed to the board on 4 April 2005.
- Paul Heiden was appointed to the board on 5 October 2005.
- Dr Catherine Bell was appointed to the board on 19 March 2007.
- John Seed resigned from the board on 29 July 2005.
- Jane Newell resigned from the board on 28 July 2006.
- Between August 2004 and March 2006, Andrew Pinder received additional fees in his capacity as a non-executive director of Vertex Data Science Limited. During the year to 31 March 2006, fees of £47,500 became due. These are included in the 2006 figures above. He resigned as a director of Vertex Data Science Limited on 31 March 2006.

Executive directors**The remuneration committee**

The remuneration committee makes recommendations to the board on the group's framework of executive remuneration and its cost. It approves, on the board's behalf, the general recruitment terms, remuneration benefits, employment conditions and severance terms for executive management. It decides the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive board directors and other directors who form the executive leadership team.

The committee's members are David Jones, Andrew Pinder and Nick Salmon. All are non-executive directors determined by the board to be independent in accordance with the Combined Code. The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross-directorships and are not involved in the day to day running of the group's businesses. Jane Newell was a member of the committee until 28 July 2006. Norman Broadhurst, Paul Heiden and Sir Peter Middleton were members until 31 October 2006. Sir Richard Evans attends meetings but is not a member of the committee. The committee's terms of reference are available to shareholders on request and are on the company's website at www.unitedutilities.com.

The committee has retained New Bridge Street Consultants LLP to advise it on executive remuneration. They also advise the company on the remuneration of a limited number of senior executive managers whose specific terms of employment do not fall within the remit of the remuneration committee. This is to ensure consistency in the application of the board's policies on executive remuneration and the general terms of employment approved by the remuneration committee. Mercer Human Resource Consulting advise the committee on pensions matters. They are also the actuaries to one of the company's pension

schemes (United Utilities Pension Scheme) and advise the company on matters relating to its operation. Eversheds LLP provide legal advice on the operation of the group's share incentive and share option plans, including drafting the rules and advising on their interpretation and may advise on individual termination arrangements. They also provide general legal advice to the group.

The committee is assisted by the chief executive, who is consulted on proposals relating to the remuneration of the other executive directors and senior executives and by the group's human resources director. They and the company secretary, attend meetings except when the committee discusses matters relating to their own remuneration. The committee can and does also seek advice directly from other specialist staff within the group.

The committee follows the principles of good governance and the code of best practice. It met six times in the year ended 31 March 2007. Individual attendance at the meetings is stated in the corporate governance report in table 12 on page 47. During the year, matters considered by the committee included:

- the 2006 salary review for executive directors and other senior executives;
- awards payable under the 2005/06 annual bonus plan and the measures and targets for the 2006/07 plan;
- the size of and performance conditions to apply to the 2006/07 grant of awards under the performance share plan and its equivalent for overseas participants, the international plan, monitoring ongoing performance against the conditions applying to previous grants and the vesting of the 2003/04 awards;
- pension provision for executives;
- monitoring of executive shareholdings against target;
- the terms of appointment and departure of executive directors and other senior executives;
- revisions to share plans to take account of age discrimination legislation; and
- the form and content of the remuneration report in light of developments in stakeholder views and evolving best practice on disclosure.

The committee also reviewed the incentive arrangements for executive directors and members of the executive leadership team. Details of revised annual bonus arrangements, proposed changes to be made in 2007/08 to the level of performance share plan awards for executive directors and the total shareholder return performance measure and the proposed introduction of a matching share award plan are given later in this report. The proposed introduction of a matching share award plan is subject to shareholder approval at the annual general meeting on 27 July 2007. During the year matched investment awards were made to Philip Green and Tim Weller and a special long-term incentive award was granted to Charlie Cornish. Details of the awards made to Tim Weller and Charlie Cornish are given later in this report. Philip Green's award was made on the basis disclosed in last year's report.

The board accepted the committee's recommendations without amendment. The chairman of the board ensures the company talks to its major shareholders, when appropriate, about matters relating to remuneration.

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Policy statement on executive directors' remuneration

The board's policy for executive directors' and senior executives' remuneration is to:

- pay a basic salary which compares with other companies of comparable size and complexity;
- use short and long-term incentives to encourage executives to out-perform key targets, thereby linking their rewards to the interests of shareholders and other stakeholders and giving them the opportunity to increase their earnings;
- encourage executives to hold shares in the company; and
- overall, reward executives fairly and responsibly for their contribution to the group's short and long-term performance and avoid paying more than is necessary for achieving this objective.

In deciding the executive directors' total remuneration package and individual elements of it, the remuneration committee assesses both the performance of the individual and the company as well as the range of pay in similar companies. In making these comparisons it considers the results carefully. The company aims to pay within a range of the mid-market rate over time but may pay higher salaries and total remuneration for out-performing individuals (or to attract or retain executives of the right calibre) and where the company itself out-performs. The company also takes account of a range of other factors, including the general increases in base salaries taking place within the company. Below mid-market pay may result from under-performance by an individual and/or the company or where an individual is new to the role.

Fixed rewards include basic salary, a car allowance or company car and fuel for private mileage, life, medical and permanent health insurance and pension benefits. Variable rewards take the form of an annual bonus and a long-term incentive (the performance share plan). The plans are designed to establish a clear link between pay and performance by encouraging and rewarding out-performance in both the short and long-term. They are based on business and individual performance, linking executives' rewards directly to the interests of shareholders and other stakeholders. Annual and long-term awards are non-pensionable.

The committee aims to achieve an appropriate balance between fixed and variable rewards. It recognises that the group operates in both a regulated and non-regulated environment and therefore needs to ensure that the structure of executive remuneration reflects the practices of the markets in which its executives operate and stakeholder expectations of how the group should be run. The board reviews its policy in the light of emerging best practice.

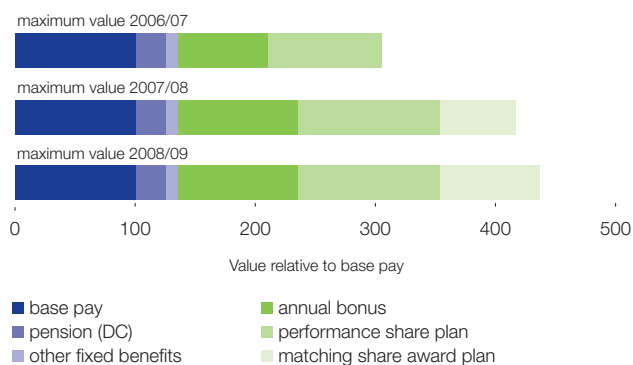
During 2006/07, the committee reviewed the operation of the group's incentive arrangements in the light of evolving market practice and to ensure that rewards remained competitive and aligned to stakeholder interests. It considered that changes were needed to annual and long-term incentives to make a greater proportion of the reward package performance related, bringing it more in line with market practice to facilitate the recruitment and retention of key executives. With effect from 2007/08 the annual bonus maximum for executive directors will be 100 per cent of salary (increased from 75 per cent) and performance share plan awards will be up to 100 per cent of salary (previously 80 per cent).

It is the board's policy that shareholders will be invited to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules. Information on and a resolution seeking shareholder approval to the introduction of a matching share award plan are included in the shareholders' circular and notice for this year's annual general meeting and there is a brief summary of its principal terms contained in pages 61 to 62 of this report. The plan's rules will be available for inspection by shareholders. Under the plan, participants will be able to invest, initially, up to 50 per cent of the annual bonus paid in respect of the previous financial year in company shares which will be matched by the company. The vesting of the matched shares will depend upon the achievement of corporate performance targets over a three-year period.

The group operates a defined contribution pension scheme which newly appointed directors (and senior executives) can join. Three former executive directors were members of the defined benefit section of the pension scheme which is now closed to new entrants.

Chart 1 sets out the impact of the board's policy on an executive director's annual total reward. It shows both the current and the revised or proposed arrangements, effective from 2007/08, assuming shareholder approval is obtained where necessary. It is expressed in terms of the maximum reward opportunity. The changes will increase the proportion of the maximum reward opportunity that is 'at risk' from about 56 per cent in 2006/07 to 69 per cent from 2008/09.

Chart 1: Executive directors' annual total reward



Notes:

- The shading represents the value of each element of the reward package relative to base pay (base pay = 100).
- Pension refers to the defined contribution section of the pension scheme with a company contribution of 25 per cent of basic pay.
- The maximum values apply only where maximum annual bonus is achieved and the performance share plan and matching share award plan have paid out fully.
- The values for the performance share plan and matching share award plan assume a dividend reinvestment value of six per cent a year for each of the three years of the performance period and, in the case of the matching share award plan, that a director has invested to the extent initially allowed i.e. 50 per cent of annual bonus paid for the previous year.

The company expects executive directors and other senior executives to acquire and hold shares at least to the value of their basic salary within five years of appointment.

Detailed policy in relation to executive directors' remuneration is set out below.

Executive directors' remuneration 2006/07

Executive directors' emoluments and the value of the long-term incentive vesting during 2006/07 are set out in table 16.

Table 16: Executive directors' emoluments and long-term incentive payments (audited information)

	Gross salary		Annual bonus		Other benefits		Total emoluments		Long-term incentive vesting during the year ended 31 March	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
John Roberts	–	525.0	–	229.7	–	36.8	–	791.5	217.2	465.1
Philip Green	686.7	74.3	488.2	–	28.4	2.4	1,203.3	76.7	–	–
Simon Batey	120.7	360.8	78.4	179.5	336.1	18.4	535.2	558.7	148.2	310.1
Charlie Cornish	340.0	273.3	241.7	142.0	17.5	25.4	599.2	440.7	107.5	–
Tom Drury	312.0	277.5	131.7	103.9	667.5	14.5	1,111.2	395.9	–	–
Gordon Waters	235.3	306.3	166.7	143.5	26.3	28.8	428.3	478.6	110.5	237.7
Tim Weller	266.7	–	185.1	–	40.1	–	491.9	–	–	–
Total	1,961.4	1,817.2	1,291.8	798.6	1,115.9	126.3	4,369.1	2,742.1	583.4	1,012.9

Notes:

- Philip Green was appointed to the board on 20 February 2006.
- Tim Weller was appointed to the board on 1 August 2006. His other benefits include £30,435 in relation to reimbursement of relocation costs.
- Tom Drury was appointed to the board on 9 May 2005, resigned from the board on 27 March 2007 and left the company on 31 March 2007. His other benefits include payments totalling £319,300 in relation to the disposal of Vertex Data Science Limited and £329,712 made in connection with his loss of office.
- Simon Batey resigned from the board on 28 July 2006 and left the company on 31 July 2006. His other benefits include payments totalling £331,003 made in connection with his loss of office.
- Gordon Waters died on 24 December 2006. An ex-gratia payment was made to his widow, with a net value of £9,410 after offsetting amounts due to Gordon.
- The value of the long-term incentive plan vesting during the year ended 31 March 2007 is based on the share price when the awards under the 2003/04 performance share plan were exercised. The awards relate to the three-year performance period which ended on 31 March 2006.
- 'Other benefits' include the taxable value of the car or car allowance, private fuel and medical insurance.

A – Salary

The remuneration committee reviews salaries each year taking account of group and personal performance. It commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity and takes account of the levels of pay awards elsewhere in the group. In this way it aims to establish whether an increase should apply and, if so, what it should be. It also considers whether there should be any departures from the norm, for example, to ensure that salaries are competitive and consistent with the application of board policy on executive remuneration.

The following changes were made to the annual salaries of executive directors during the year:

Table 17: Executive directors' salaries

	Salary at 31 March 2007 £'000	Salary at 31 March 2006 £'000	Date of change
Philip Green	695.0	675.0	1 Sept 2006
Simon Batey	–	371.0	–
Charlie Cornish	340.0	290.0	1 April 2006
Tom Drury	319.3	310.0	1 Sept 2006
Gordon Waters	–	315.0	–
Tim Weller	400.0	–	1 July 2006

Notes:

- Gordon Waters' salary was increased to £330,750 on 1 September 2006. He died on 24 December 2006.

B – Annual bonus

The annual bonus is designed to motivate executive directors and other senior executives to achieve the group's key financial,

operational and strategic objectives. Directors are rewarded according to the company's financial and operational performance for the year and the achievement of individual targets. Targets are set each year. The operational and individual targets may include performance against key stakeholder measures and personal objectives. Annual bonus awards are normally paid in cash.

(a) 2007/08

The remuneration committee has decided that, for the 2007/08 annual bonus plan, the maximum bonus will be 100 per cent of salary for executive directors and 60 per cent for other members of the executive leadership team. For executive directors (except Paul Capell), group financial measures will account for bonus payments worth up to 50 per cent of salary. For Paul Capell, group financial measures will account for 30 per cent. The measures will be group profit before restructuring costs, other non-recurring items, investment income and finance expense (PBEIT) and profit before restructuring costs, other non-recurring items and taxation (PBET) (weighted equally).

For each of the financial measures, one quarter of the maximum award allocated to that measure becomes payable once the threshold target is met. Awards increase in value on a straight-line basis until half of the maximum award is payable for achieving an intermediate target between the threshold and stretch targets. Awards continue to increase in value on a straight-line basis between the intermediate and stretch targets, at which point the maximum award is payable. The stretch targets are demanding and achievement represents results which exceed expectations.

Executive directors' annual bonus payment will also depend on operational performance in other areas of the group's activities.

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The measures include operational targets in the water, wastewater and electricity distribution businesses; maintaining the company's corporate responsibility performance in the Business in the Community's (BitC) Corporate Responsibility Index, an authoritative and broad external benchmark of responsible business practice in relation to the environment and society; for improving the group's score in the Dow Jones European and World Sustainability Index; and achieving improvements in employee satisfaction measured by responses to questions in an externally conducted and verified employee opinion survey.

Personal objectives account for the balance of the bonus opportunity. Paul Capell's personal objectives include financial measures relating to the international business.

The executive directors' annual bonus plan measures for 2007/08 are summarised in table 18.

(b) 2006/07

The financial measures to determine annual bonuses for 2006/07 were PBEIT and PBET (weighted equally). Targets were set for the financial performance of the group and the major businesses. The maximum bonus opportunity totalled 50 per cent of salary with the allocation between group and business performance varying between executives. Non-financial targets accounted for up to a further 25 per cent of salary. Five per cent was based on achieving a water and wastewater customer service target of 65 per cent of respondents to an externally conducted survey scoring four or five, i.e. being very or extremely satisfied with how the company dealt with their query or contact. Two and a half per cent was based on achieving a score in the BitC Corporate Responsibility Index of 96 per cent, two and a half per cent on scores in the 2006/07 employee opinion survey and 15 per cent on the achievement of individual objectives.

A breakdown of achievement against financial, customer service, corporate responsibility and employee satisfaction targets, the

achievement of personal objectives and the outcome of the 2006/07 annual bonus plan for executive directors is shown in table 19. The corporate responsibility performance was 96 per cent. The customer service performance was 74 per cent.

Neither of the employee related targets (based on the results of the employee opinion survey) was achieved resulting in no bonus being payable for that element.

C – Other benefits

Directors are paid a car allowance of £14,000 a year or have the use of a company car, are reimbursed the cost of fuel for business and private use, and are provided with medical and life insurance and, if not a member of the defined benefit pension scheme, permanent health insurance.

D – Long-term incentives

(i) Performance share plan

Executive directors and other senior executives participate in the performance share plan. Awards are granted at the discretion of the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the remuneration committee. Each year, participants may be awarded a right to acquire a maximum number of shares worth up to a percentage of their annual salary at the date of the award, at no cost to them. The number of shares awarded is based on the market price of a share at that time. The plan's rules provide for a maximum award of 100 per cent of annual salary. However, annual awards made to date to directors have been limited to 80 per cent of salary. Awards to other executives range between 15 and 60 per cent of salary. Grants are normally made within 42 days of the publication of results. The main grant normally occurs after the publication of the preliminary results. A subsequent grant may be made after the publication of the interim results for executives who have become eligible after the main grant has been made.

The proportion of the award that will vest depends upon the group's performance against specified targets over a performance

Table 18: Executive directors' annual bonus plan measures 2007/08

	Financial performance measures		Operational performance measures			Personal objectives		Total
	Group PBEIT	Group PBET	Operational targets	Corporate responsibility	Employee satisfaction			
Philip Green	25	25	20	2.5	2.5	25	100	
Tim Weller	25	25	20	2.5	2.5	25	100	
Charlie Cornish	25	25	20	2.5	2.5	25	100	
Paul Capell	15	15	5	2.5	2.5	60	100	

Notes:

- Figures are a percentage of base earnings during the year.

Table 19: Executive directors' annual bonus plan outcome 2006/07

Award:	Financial performance measures				Operational performance measures				Personal objectives				Total
	Customer service		Corporate responsibility performance		Employee satisfaction								
	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual	
Philip Green	50	49.5	5	5	2.5	2.5	2.5	–	15	14.1	75	71.1	
Simon Batey	50	49.5	5	5	2.5	2.5	2.5	–	15	8.0	75	65.0	
Charlie Cornish	50	49.5	5	5	2.5	2.5	2.5	–	15	14.1	75	71.1	
Tom Drury	50	24.5	5	5	2.5	2.5	2.5	–	15	10.2	75	42.2	
Gordon Waters	50	48.3	5	5	2.5	2.5	2.5	–	15	15.0	75	70.8	
Tim Weller	50	49.5	5	5	2.5	2.5	2.5	–	15	12.4	75	69.4	

Notes:

- Figures are a percentage of base earnings during the year.

period. This period is not less than three years, beginning at the start of the financial year during which the award is made. There is no re-testing if the performance criteria are not met.

To date, the performance criteria have been: the company's total shareholder return (TSR) performance when compared with the TSR performance of a comparator group of other companies; and underlying business performance.

TSR is widely used as an externally verifiable measure of a shareholder's return. Relating awards to the company's relative TSR performance supports the policy objectives of linking executives' rewards directly to the group's performance and shareholders' interests and gives executives the opportunity to increase their earnings by meeting and out-performing key long-term measures.

The remuneration committee has the discretion to make adjustments to the comparator group or the period over which relative TSR is measured during the performance period to maintain the integrity of the plan, for example, following a takeover bid or activity or merger/demerger announcement. During the year, the remuneration committee considered the treatment of changes affecting companies in the comparator groups for awards made in 2004/05, 2005/06 and 2006/07.

No award will vest if the company's TSR performance is below the median for the comparator group. If performance is between median and upper quartile, the proportion of the maximum number of shares in the award which will vest will be calculated on a straight-line basis between 25 per cent and 100 per cent. External advisers regularly assess and report to the committee on the company's TSR performance and ranking in the comparator group. Their report at the end of the performance period enables the committee to determine the extent to which this performance condition has been met.

The vesting of awards is also subject to the remuneration committee being satisfied that the company's recorded TSR performance is consistent with underlying business performance. The committee tests whether this condition has been satisfied after the end of each performance period in accordance with the terms of each award. Reference may be made to actual against planned performance in key corporate financial measures. The committee takes account of the impact of the transition to International Financial Reporting Standards when assessing underlying business performance against the performance measures.

There is no automatic waiving of performance conditions if there is a change of control, capital reconstruction or winding up of the company. The extent (if any) to which awards will vest and any modifications of performance conditions are at the trustee's discretion, with the consent of the remuneration committee.

When a participant's employment terminates during a performance period and the reason falls within the 'good leaver' provisions of the plan, the vesting of an award is at the trustee's discretion. If discretion is exercised, the maximum number of shares in an award is pro-rated to service in the performance period and vesting is subject to satisfying the performance conditions (modified if appropriate). Except in the case of the death of a participant, there is normally no early vesting of awards. Awards lapse where terminations during the performance period do not satisfy the good leaver provisions.

Participants normally have three months from the date the award vests in which to exercise their right to acquire the number of

shares that have vested. Awards are normally satisfied by the transfer of shares from the trustee to participants. The trustee may periodically buy shares in the market to ensure that it can satisfy its liabilities when an award vests. These purchases are normally financed by the company making a loan to the trustee. The company takes account of the vesting timetable and likely scale of vesting in determining the financial assistance it provides for the trustee. The company reviews this arrangement from time to time to ensure its cost effectiveness. Awards may also be satisfied by allotting shares. Details of the number of shares held by the trust at 4 June 2007 are given in the notes to table 9 on page 44.

The performance share plan was amended during the financial year in the manner approved by shareholders at the 2006 annual general meeting. Full details of the amendments made were given in the annual report 2006 but principally they included the introduction of notional dividend reinvestment on the number of shares comprised in awards, a reduction in the scale of vesting for median performance and minor changes to aid the administration of the plan. Details of how the notional dividend reinvestment provisions have affected directors' individual awards are set out in table 24 on pages 59 and 60.

(a) 2007/08 grant

During the year, the committee reviewed the operation of the comparative TSR performance condition. It concluded that for the 2007/08 award United Utilities' TSR performance over three years would be measured against a TSR index rather than a comparator group ranking. The inclusion of appropriate companies in a comparator group is critical for relative performance to be meaningful. However, it is also important that the group should be of a reasonable size to avoid the performance of a few companies having a disproportionate impact on the outcome of the plan, to be able to accommodate changes in the comparator group and to avoid too high a leverage between the company's relative position and the proportion of the award that vests. The comparator group approach has become increasingly inappropriate as the number of comparable companies has declined. Using an index allows for a meaningful comparison of performance to be made and a smoother sliding scale of vesting of awards. The index will be constructed by assessing the TSR performance of the following companies with their influence on the index being weighted according to their relevance and size:

Table 20: TSR – weighting of comparator companies

Company	Weighting
Kelda	100%
National Grid	25%
Northumbrian Water	75%
Pennon Group	75%
Scottish & Southern Energy	25%
Severn Trent	100%

It is proposed that none of the award will vest if United Utilities' performance is below the index. 25 per cent of the award will vest for a performance equal to the index and 100 per cent for outperforming the index by 12 per cent over the three-year performance period to 31 March 2010. Vesting will be on a sliding scale for performance between these points. The vesting of awards will also be subject to the remuneration committee being satisfied that the company's recorded TSR performance is consistent with underlying business performance.

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(b) 2006/07 grant

During the year, option awards to a maximum value of 80 per cent of annual salary were made to directors in respect of the 2006/07 performance share plan. The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2006 to 31 March 2009. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, Balfour Beatty, BG Group, British Energy, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, ScottishPower, Severn Trent and Viridian. The committee has taken account of corporate events affecting AWG, ScottishPower, Severn Trent and Viridian since the start of the performance period. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the company's underlying business performance.

The vesting scale is shown in table 21.

Table 21: 2006/07 Performance share plan vesting scale

Comparator group size (No. of companies)			17
Ranking in comparator group	% of max award vesting	% of salary	
1 to 4	100	80	
5	92	73.6	
6	75	60	
7	63	46.4	
8	58	33.6	
9	42	20	
10 or below	–	–	

The group's total shareholder return of 18.7 per cent from 1 April 2006 to 31 March 2007 placed it in 15th position.

(c) 2005/06 grant

Directors have awards to a maximum value of 80 per cent of annual salary in respect of the 2005/06 performance share plan. The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2005 to 31 March 2008. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, BAA, Balfour Beatty, BG Group, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, ScottishPower, Severn Trent and Viridian. The committee has taken account of corporate events affecting AWG, BAA, ScottishPower, Severn Trent and Viridian since the start of the performance period. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the company's underlying business performance.

The vesting scale is shown in table 22.

Table 22: 2005/06 Performance share plan vesting scale

Comparator group size (No. of companies)			17
Ranking in comparator group	% of max award vesting	% of salary	
1 to 4	100	80	
5	93	74.4	
6	78	62.4	
7	63	50.4	
8	48	38.4	
9	33	26.4	
10 or below	–	–	

The group's total shareholder return of 39.7 per cent from 1 April 2005 to 31 March 2007 placed it in 17th position.

(d) 2004/05

Directors have awards to a maximum value of 80 per cent of annual salary in respect of the 2004/05 performance share plan. The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2004 to 31 March 2007. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, BAA, Balfour Beatty, BG Group, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, ScottishPower, Severn Trent and Viridian. In addition, three smaller companies, Bristol Water, East Surrey Holdings and International Energy Group, were included as a notional combined 17th company made up in proportion to their market capitalisations at the start of the performance period. The committee has taken account of corporate events affecting AWG, BAA, ScottishPower, Severn Trent, Viridian and the notional 17th company since the start of the performance period. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the company's underlying business performance.

The vesting scale is shown in table 23.

Table 23: 2004/05 Performance share plan vesting scale

Comparator group size (No. of companies)			18
Ranking in comparator group	% of max award vesting	% of salary	
1 to 4	100	80	
5	97	77.6	
6	82	65.6	
7	68	54.4	
8	54	43.2	
9	40	32	
10 or below	–	–	

The group's total shareholder return of 99.3 per cent from 1 April 2004 to 31 March 2007 placed it in 15th position. As a result none of the 2004/05 awards will vest.

Details of executive directors' continuing scheme interests in the performance share plan, including those awarded during the year, are set out in table 24.

Table 24: Executive directors' continuing scheme interests in the performance share plan (audited information)

		Award details				Contingent scheme interest at 1 April 2006	Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2007				
		Award date	Performance period	% of salary	Value at award date £'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Value £'000	No. of shares	Value £'000	Max. no. of shares	Value £'000
John Roberts													
2004/05	Ordinary A shares	18.8.04	1.4.04 to 31.3.07	80	384.0	527.0 341.25	51,885 28,825	73,447 –	506.4 –	(24,483) –	n/a –	48,964 –	369.9 –
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	403.2	657.5	61,324	61,324	422.8	(40,902) –	n/a	20,422	154.3
Total					787.2			134,771	929.2	(65,385)	–	69,386	524.2
Philip Green													
2005/06	Ordinary	13.2.06	1.4.05 to 31.3.08	80	540.0	688.5	78,432	78,432	540.8	–	–	78,432	592.6
2006/07	Ordinary	8.9.06	1.4.06 to 31.3.09	80	556.0	676.0	82,249	–	–	87,489	557.3	87,489	661.0
Total					1,096.0			78,432	540.8	87,489	557.3	165,921	1,253.6
Simon Batey													
2004/05	Ordinary A shares	30.6.04	1.4.04 to 31.3.07	80	264.0	547.0 347.75	35,658 19,810	50,477 –	348.0 –	(11,202) –	n/a –	39,275 –	296.7 –
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	277.2	657.5	42,160	42,160	290.7	(23,427)	n/a	18,733	141.5
Total					541.2			92,637	638.7	(34,629)	–	58,008	438.2
Charlie Cornish													
2004/05	Ordinary A shares	30.6.04	1.4.04 to 31.3.07	80	188.0	547.0 347.75	25,407 14,115	35,965 –	248.0 –	– –	– –	35,965 –	271.7 –
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	200.0	657.5	30,419	30,419	209.7	–	–	30,419	229.8
2006/07	Ordinary	8.9.06	1.4.06 to 31.3.09	80	272.0	676.0	40,237	–	–	42,799	272.6	42,799	323.3
Total					660.0			66,384	457.7	42,799	272.6	109,183	824.8
Tom Drury													
2004/05	Ordinary A shares	30.6.04	1.4.04 to 31.3.07	80	162.0	547.0 347.75	21,888 12,160	30,984 –	213.6 –	– –	– –	30,984 –	234.1 –
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	248.0	657.5	37,719	37,719	260.0	–	–	37,719	285.0
2006/07	Ordinary	8.9.06	1.4.06 to 31.3.09	80	255.4	676.0	37,787	–	–	40,194	256.0	40,194	303.7
Total					665.4			68,703	473.6	40,194	256.0	108,897	822.8

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Table 24 continued: Executive directors' continuing scheme interests in the performance share plan (audited information)

		Award details				Contingent scheme interest at 1 April 2006		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2007			
		Award date	Performance period	% of salary	Value at award date £'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Value £'000	No. of shares	Value £'000	Max. no. of shares	Value £'000
Gordon Waters													
2004/05	Ordinary A shares	30.6.04	1.4.04 to 31.3.07	80	224.0	547.0 347.75	30,258 16,810	42,832	295.3	–	–	42,832	323.6
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	235.2	657.5	35,772	35,772	246.6	–	–	35,772	270.3
2006/07	Ordinary	8.9.06	1.4.06 to 31.3.09	80	264.6	676.0	39,143	–	–	41,636	265.2	41,636	314.6
Total					723.8			78,604	541.9	41,636	265.2	120,240	908.5
Tim Weller													
2006/07	Ordinary	8.9.06	1.4.06 to 31.3.09	80	320.0	676.0	47,338	–	–	50,354	320.8	50,354	380.4
Total					320.0			–	–	50,354	320.8	50,354	380.4

Notes:

- The values shown for 1 April 2006 have been calculated using the mid-market price of a share at close of business on 31 March 2006 of 689.5 pence.
- The values shown for 31 March 2007 have been calculated using the mid-market price of an ordinary share at close of business on 30 March 2007 of 755.5 pence.
- The contingent scheme interest at 1 April 2006 for the 2004/05 awards incorporate an adjustment in the number of shares in awards to take account of the second stage of the rights issue. The number of ordinary shares increased by a factor of 1.41559048 and the number of A shares reduced to zero. This reflects the position of shareholders taking up their rights and takes account of the subscription cost.
- The market price of a share at award is the mid-market price of an ordinary or A share at close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprising the award.
- John Roberts' 2004/05 award was part of a special grant to five executives whose awards could not be made until a rule change relating to retirement had been approved at the 2004 annual general meeting. The market prices of an ordinary and A share at the date of their awards were 527.0 pence and 341.25 pence respectively. However, as disclosed in the note accompanying the resolution to the annual general meeting, to ensure that the beneficiaries of the rule change were treated neither more nor less favourably than participants in the main grant, the maximum number of shares in their awards was calculated using the market prices of 547.0 pence (ordinary share) and 347.75 pence (A share) applicable to the main grant.
- Philip Green's 2005/06 award was granted on the date he joined the group.
- The contingent scheme interest awarded during the year in respect of the 2006/07 plan comprises the number of award shares granted and additional shares resulting from the notional reinvestment of notional dividend payable during the year on the number of shares subject to the award. The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The reduction in contingent scheme interest during the year and the consequential reduced contingent scheme interest at 31 March 2007 in respect of the 2004/05 and 2005/06 awards for John Roberts and Simon Batey are based on the assumption that the plan's trustees will exercise their discretion after the end of the respective performance periods and allow the awards to vest with the maximum number of shares in their awards being time pro-rated to their dates of leaving.
- Details of the criteria used for grants under the performance share plan are on pages 57 to 58. Tom Drury's 2004/05 award was granted prior to his joining the board. The performance conditions for the 2004/05 award set out on page 58 apply to 50 per cent of his award. The vesting of the other 50 per cent is subject to performance against cumulative earnings before interest, tax and amortisation (EBITA) and average return on capital employed (ROCE) targets over the three years from 1 April 2004 to 31 March 2007 set out in the business plan for Vertex Data Science Limited agreed immediately before the start of the performance period. There is a sliding scale of vesting.

(e) 2003/04 grant

During the year, awards granted under the 2003/04 plan vested. The extent to which awards vested was based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2003 to 31 March 2006. At the beginning of the performance period the comparator group comprised the following 15 companies in addition to United Utilities: BAA, BG Group, Boots Company, British Energy, Centrica, International Power, J Sainsbury, Kelda Group, Morrisons, National Grid Group, Scottish & Southern Energy, ScottishPower, Severn Trent, Tesco and Viridian. During the performance period British Energy delisted. It was retained in the comparator group and United Utilities' TSR performance relative to it was compared from the beginning of the performance period until the day before the delisting. United Utilities' TSR for the performance period was 66.5 per cent which placed it eighth out of 16. The remuneration committee was satisfied that the TSR performance was consistent with the company's underlying business performance. In particular, performance exceeded the earnings per share, dividend cover and interest cover targets for 2005/06 set out in the group's five-year business plan to 2007/08. 41 per cent of the maximum award, therefore, vested in accordance with the company's relative TSR performance; 59 per cent lapsed. Further details of directors' scheme interests in the performance share plan, vested during the year, are set out in table 25.

Table 25: Executive directors' scheme interests in the performance share plan vested during the year (audited information)

Award details						Contingent scheme interest at 1 April 2006	Contingent scheme interest lapsed during the year	Contingent scheme interest vested during the year	Value of award at exercise					
Award date	Performance period	% of salary	Value at award date £'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Value £'000	No. of shares	No. of shares	Value £'000	Market price of a share at exercise pence	Value £'000		
John Roberts														
2003/04	29.9.03	1.4.03 to 31.3.06	80	360.0	Ordinary A share	469.0 276.0	57,843 32,135	81,882	564.6	48,311	33,571	222.4	647.0	217.2
Simon Batey														
2003/04	29.9.03	1.4.03 to 31.3.06	80	240.0	Ordinary A share	469.0 276.0	38,556 21,420	54,579	376.3	32,202	22,377	148.2	662.5	148.2
Charlie Cornish														
2003/04	29.9.03	1.4.03 to 31.3.06	80	188.0	Ordinary A share	469.0 276.0	28,710 15,950	40,641	280.2	23,979	16,662	110.4	645.0	107.5
Gordon Waters														
2003/04	29.9.03	1.4.03 to 31.3.06	80	184.0	Ordinary A share	469.0 276.0	29,565 16,425	41,851	288.6	24,693	17,158	113.7	644.0	110.5

Notes:

- The market price of a share at award is the mid-market price of an ordinary or A share at close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprising the award.
- The maximum number of shares comprising the contingent scheme interest at 1 April 2006 incorporates an adjustment to take account of the rights issue. The values of shares comprising awards based on the last quoted cum-rights share price of 531.5 pence was divided by the theoretical ex-rights price of 459.54 pence to determine the revised numbers of shares shown above.
- The values shown for 1 April 2006 have been calculated using the mid-market price of a share of 689.5 pence at close of business on 31 March 2006.
- Awards vested on 6 June 2006 in respect of 41 per cent of the maximum number of shares under option and lapsed in respect of 59 per cent. The values for scheme interests vesting during the year have been calculated using the mid-market price of a share of 662.5 pence on close of business on that date.
- The above awards were granted as 'option awards', whereby the participant is granted an option to acquire the number of shares which vests under the plan. The options were exercisable over a period of three months from the vesting date. No consideration was payable by the executives either upon grant of the option award or upon the subsequent exercise of the option.

(ii) Proposed matching share award plan

Full details of the proposed matching share award plan are included in the shareholders' circular and notice for the 2007 annual general meeting at which approval of the plan's rules will be sought. The rules will be available for inspection.

The decision to seek shareholder approval for the adoption of the new matching share award plan follows a detailed review of long-term incentives. It was considered necessary to bring the incentive potential into line with the market. Participants must make a long-term investment in United Utilities by acquiring shares with their bonus to benefit from the plan. These will be matched by the company after three years subject to achievement of a balance of performance measures so ensuring that executives are encouraged to deliver shareholder returns as well as improving the underlying financial and operational performance. Operational performance is seen as a key

determinant of success, particularly in view of the regulatory framework in which United Utilities operates.

To participate in the plan, executive directors will be required to invest 20 per cent of their previous year's annual bonus in shares. There will also be the opportunity to voluntarily invest additional bonus into shares. The total investment in the plan will initially be limited to 50 per cent of annual bonus. Other selected senior executives will be invited to voluntarily invest up to 50 per cent of their bonus in shares. In all cases, invested shares must be retained for the duration of the performance period which will be three years. It is proposed that the first awards will be based on the outcome of the 2006/07 annual bonus plan.

Participants who have invested part of their bonus in shares will receive a corresponding matching award over shares with a value at the award date equal to 2:1 for any compulsorily invested bonus and 1:1 for any voluntarily invested bonus.

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All matching ratios are calculated on a 'gross of tax' basis. The number of matching shares subject to an award will be augmented by the notional reinvestment of any dividends payable on them from the beginning of the performance period until the date the awards vest. The plan's rules limit the total value of matching shares subject to an award to 100 per cent of base salary.

Matching awards will normally vest subject to satisfying performance conditions which will be measured over a fixed three-year period with no retesting and the participant remaining in employment throughout the performance period. If an event occurs which causes the remuneration committee reasonably to consider that the targets and/or measures are no longer appropriate, it may recommend the trustee to waive, vary or replace any or all of the targets and/or measures in such a way as, in the reasonable opinion of the committee, produces a fairer measure of performance for the performance period (or any abbreviated part of it), provided that the varied or replacement targets and/or measures are not materially more difficult to satisfy than the original targets and/or measures (as the case may be) would have been had the event in question not occurred.

If there is a change of control or voluntary winding up of the company, the award may be exercised at the trustee's discretion and the number of shares over which the award may be exercised will depend on the extent to which the trustee determines the performance conditions (amended or otherwise) have been achieved and taking into account any other criteria (such as the time pro-rating of awards) as the trustee considers relevant. If there is a reconstruction or demerger, the trustee may vary the terms and/or allow the early vesting of the award having due regard to the object and purposes of the award.

If a participant ceases to be an employee because of death, ill health, retirement on or after reaching contractual retirement age or redundancy at any time during the performance period, the award may be exercised at the trustee's discretion and the number of shares over which the award may be exercised will depend on the extent to which the trustee determines the performance conditions (amended or otherwise) have been achieved and will be reduced on a time pro-rating basis.

Initially, half of the shares under a matching award will be subject to the relative TSR measure and scale of vesting that it is proposed to apply to awards made under the performance share plan from 2007.

Vesting of the remaining half of the shares in the matching award will be subject to key operational measures. For the first awards, there will be 17 measures in four operational areas. A quarter of this portion of the award (12.5 per cent of the total award) will vest for satisfying all of the measures in an operational area. All 17 measures will need to be achieved for the whole of this half of the award to vest.

The scale of vesting is set out in table 26.

Table 26: Vesting scale

Operational areas	Total no. of measures	Number of measures to be achieved for vesting under each measure*			
		0% vesting	25% vesting	50% vesting	100% vesting
1. Quality & environment	5	< 3	3	4	5
2. Customer service	4	< 2	2	3	4
3. Finance & efficiency	4	< 2	2	3	4
4. Employee related	4	< 2	2	3	4

Value of vesting per operational area (% of total matching award)	0%	3.125%	6.25%	12.5%

Notes:

* Vesting under each operational area is not dependent upon achieving a certain level of performance across the other three measures.

The targets will be set by the remuneration committee before awards are granted and, depending on the measure, will require maintenance or improvement of the company's performance.

The measures in each operational area for which targets will be set are:

1. Quality & environment

- 1.1 OPI water quality index performance – a comparative index of performance across all water companies
- 1.2 Bacteriological failure incidents
- 1.3 Wastewater compliance
- 1.4 Pollution incidents
- 1.5 Leakage

2. Customer service – all measures as reported by the relevant regulator

- 2.1 Customer minutes lost
- 2.2 Customer interruptions
- 2.3 Customer satisfaction (Electricity)
- 2.4 Customer satisfaction (Water)

3. Finance & efficiency

- 3.1 Water – improvement in the relative efficiency band as published by the regulator
- 3.2 Wastewater – improvement in the relative efficiency band as published by the regulator
- 3.3 Electricity – improvement in the relative efficiency ranking as published by the regulator
- 3.4 PBET

4. Employee related: all measures verified against employee survey results published by the company's external consultant

- 4.1 Overall job satisfaction
- 4.2 Overall satisfaction with their business as an employer
- 4.3 "Directors and senior managers in their part of the business don't just talk about our values, they live by them"
- 4.4 Employee engagement

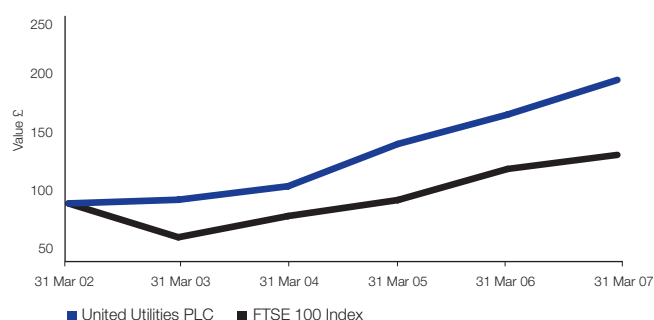
The performance period for the first awards will be 1 April 2007 to 31 March 2010.

Performance graph

Chart 2 compares the company's annual TSR performance for the past five years against the FTSE 100 Index. This index was chosen as it is the most appropriate broad equity market index. This comparison also supplements the information on the group's TSR performance relative to the comparator groups in the performance share plan. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date of 31 March 2002.

Chart 2: Total shareholder return

Source: Thomson Financial



Notes:

- This graph shows the value, by 31 March 2007, of £100 invested in United Utilities on 31 March 2002 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Share options

Grants of executive share options were made under the company share option plan 1999 up to and including 2002. From 2003, awards under the performance share plan have replaced further grants of executive share options.

Executive directors are eligible to participate in the all-employee SAYE scheme (ShareSave). Neither the award nor the exercise of ShareSave options is dependent upon the satisfaction of performance conditions. The last grant of options was ShareSave 2004. Details of their interest in ShareSave options are shown in table 27.

Table 27: Directors' interests in options (audited information)

	At 1 April 2007	Granted/ (lapsed)	Exercised during the year	At 31 March 2007	Exercise price per share pence	First date exercisable	Last date exercisable
Simon Batey							
ShareSave 2004	1,751	(1,751)	–	–	396.0	–	–
Total	1,751	(1,751)	–	–			
Gordon Waters							
ShareSave 2002	2,648	(217)	–	2,431	432.3	25.12.06	24.12.07
Total	2,648	(217)	–	2,431			

Notes:

- The mid-market price of a share on 30 March 2007 was 755.5 pence and the range in the year was 626.0 pence to 799.0 pence.
- No amount is payable by a participant for the grant of an option.
- For ShareSave 2002, the number of shares under option at 1 April 2006 and 31 March 2007 and the exercise price reflect adjustments to take account of the rights issue.
- The partial lapsing of and the first and last dates exercisable for Gordon Waters' ShareSave option reflect the application of the plan's rules in respect of his death.
- The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day on which options were exercised and the exercise price) was £nil (2006: £7,852).

Executive directors' shareholdings

Executive directors are expected to build up and retain a target shareholding equal to the value of their basic salary, normally within five years of appointment. Performance share plan awards are delivered in shares and executives can retain all the shares that vest if they make a cash payment to meet their PAYE statutory liabilities. The company prefers a flexible approach to the accumulation of a shareholding, which takes account of individual circumstances, and has decided not to require executives to retain a proportion of shares that vest under its incentive plans. Executive directors' interests in shares, as at 31 March 2007, are listed in table 9 of the directors' report on page 44. The value of these interests relative to their yearly salaries are shown in table 28.

Table 28: Executive directors' shareholdings

	Salary £'000	Value of shareholding £'000	Value relative to salary %	Target to be achieved by
Philip Green	695.0	758.5	109.1	13.02.11
Charlie Cornish	340.0	78.3	23.0	27.01.09
Tim Weller	400.0	294.4	73.6	01.07.11

Notes:

- The value of the shareholding is based on a share price of 754.5 pence. This is the share price averaged over the final three months of the financial year.

Matched share investment scheme for Philip Green

Full details of the matched share investment scheme for Philip Green, introduced as part of his terms of appointment, were disclosed in the remuneration report for 2006. In accordance with the rules of that scheme, Philip Green invested in 100,000 shares and a conditional matched award of 100,000 shares was made to him on 16 January 2007 which will transfer to him at the end of the five-year retention period on 12 February 2011, subject to his still being employed by the company at that date. The number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the matched shares over the course of the five-year retention period. Details of his scheme interests are shown in table 29.

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Table 29: Philip Green's continuing scheme interests in the matched share investment scheme (audited information)

Award date	Retention period	Market price of a share at award pence	Award details		Contingent scheme interest at 1 April 2006		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2007	
			No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000
16.1.07	13.2.06 to 12.2.11	761.0	100,000	761.0	–	–	106,371	805.9	106,371	803.6

Notes:

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises the initial award of 100,000 shares and 6,371 shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2007 has been calculated using the mid-market price of a share of 755.5 pence at close of business on 30 March 2007.

Matched share investment scheme for Tim Weller

Tim Weller commenced employment with the company on 1 July 2006 and was appointed to the board of the company on 1 August 2006. As part of the terms of his recruitment and retention, the company agreed to establish a matched share investment scheme. This is a long-term incentive scheme under which Tim Weller is the sole participant. Full details of the scheme are set out below. The arrangement was introduced specifically to facilitate Tim Weller's recruitment. The company considered the circumstances of his recruitment were such that it was important and necessary to introduce these arrangements to attract him as the new chief financial officer and to retain him up to and beyond the implementation of the next regulatory reviews.

Tim Weller first became eligible to participate in the scheme upon commencement of his employment on 1 July 2006. The principal terms are:

- he agreed to acquire, at the start of his contract and at his expense, shares in the company to the value of £250,000 and has invested in 39,000 shares in the company (Investment Shares);
- the company has matched the Investment Shares on a one-for-one basis by making a matching share award in the form of a nil cost option over 39,000 shares in the company (Matched Shares);
- the exercise price payable under the option shall be zero;
- in normal circumstances, the option will be capable of being exercised by Tim Weller at the end of a five-year period commencing from the date he joined the company provided that:
 - a) he has maintained throughout this period a shareholding in the company of at least the number of Investment Shares; and
 - b) he remains an employee within the group for the whole of the five-year period;
- the number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the Matched Shares over the course of the five-year period;
- in the event that Tim Weller ceases to be an employee because of ill health, death or any reason at the discretion of the trustee, at any time during this five-year period, or he is dismissed without cause during years four and five, the number of shares over which his matching share award (including those notionally added by way of dividend reinvestment as mentioned above) may be exercised will be reduced on the basis of a time pro-rating depending on how much of the five-year period has elapsed as at the date of such cessation of employment.

As the arrangement has been introduced in lieu of making a compensatory payment to Tim Weller for losses incurred in leaving his previous employer and as he was required to make an immediate and sustained investment in the company, it was considered inappropriate to impose performance conditions in addition to the other conditions applying to the exercise of the matching share award. For the same reasons, if there is a change of control or voluntary winding up of the company in the five-year period, the award may be exercised and there will be no time pro-rating. If there is a reconstruction or demerger, the trustee may vary the terms and/or allow the early vesting of the matching share award having due regards to the object and purposes of the award;

- the matching award will be exercisable for a period of six months after the end of the five-year period and will lapse if not exercised by then. This period may be extended if Tim Weller is prevented from exercising because of restrictions in place under the model code operated by the company;
- the matching share award will not be capable of assignment and, until it is exercised, Tim Weller will have no right to vote in respect of the shares subject to the matching share award;
- shares transferred pursuant to the exercise of the matching share award will rank *pari passu* in all respects with the shares in the company already in issue; and in the event of any increase or variation in the share capital of the company, the remuneration committee may recommend such adjustment to the matching share award as it considers reasonable.

The provisions under the scheme for Tim Weller which relate to:

- the person to whom the matching share award may be made;
- the limits on the number of shares which may be used under the scheme;
- the maximum entitlement of Tim Weller;
- the basis for determining Tim Weller's entitlement to the matching share award or shares pursuant to it; and
- the basis for determining the adjustment of the matching share award granted under the scheme following any increase or variation in the share capital of the company

cannot be amended to the advantage of Tim Weller without the prior approval of the shareholders in a general meeting (except for minor amendments to benefit the administration of the long-term incentive scheme, to take into account any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Tim Weller or the company or members of its group).

The benefits to Tim Weller under the scheme are not pensionable. The company believes that this arrangement and particularly the time period it relates to, which extends beyond the implementation of the next regulatory reviews, is a forceful alignment of interests between Tim Weller and shareholders. The matched award of 39,000 shares was made to Tim Weller on 14 February 2007. Details of his scheme interest are shown in table 30.

Table 30: Tim Weller's continuing scheme interests in the matched share investment scheme (audited information)

Award date	Retention period	Market price of a share at award pence	Award details		Contingent scheme interest at 1 April 2006		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2007	
			No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000
14.2.07	1.7.06 to 30.6.11	772.5	39,000	301.3	–	–	41,484	318.8	41,484	313.4

Notes:

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises the initial award of 39,000 shares and 2,484 shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2007 has been calculated using the mid-market price of a share of 755.5 pence at close of business on 30 March 2007.

Special long-term incentive scheme for Charlie Cornish

In order to facilitate his retention up to and beyond the next regulatory reviews, a special long-term incentive scheme has been introduced for Charlie Cornish. He is the sole participant. Under the scheme an award equal in value to his annual salary was granted to Charlie Cornish on 16 March 2007. The award is in the form of an option over 47,027 shares.

The principal terms are:

- the exercise price payable under the option shall be zero;
- in normal circumstances, the option will be capable of being exercised by Charlie Cornish at the end of a four-year performance period from 1 April 2006 to 31 March 2010 provided that he remains an employee within the group for the whole of the four-year period;
- the number of shares subject to the award will be increased by the notional reinvestment of dividends payable on them during and until the date that the award vests after the end of the four-year performance period;
- the number of shares over which the option may be exercised will depend upon the extent to which the performance conditions attached to the award have been satisfied over the four-year performance period;
- the performance conditions are the same as those set out for the operational performance conditions for the 2007 award under the proposed matching share award plan disclosed in this report, including the facility to waive, vary or replace any or all of the targets and/or measures if an event occurs which causes the remuneration committee reasonably to consider that the targets and/or measures are no longer appropriate;
- in the event that Charlie Cornish ceases to be an employee because of death, ill health or redundancy or for any reason at the discretion of the trustee, at any time during the performance period, the award may be exercised at the trustee's discretion and the number of shares over which the award may be exercised will depend upon the extent to which the trustee determines the performance conditions (amended or otherwise) have been achieved and the number of shares may also be reduced on a time pro-rating basis. If there is a change of control or voluntary winding up of the company the award may be exercised over such number of shares determined by reference to the extent to which the performance conditions have been satisfied and any time pro-rating reduction which may be applied.

If there is a reconstruction or demerger, the trustee may vary the terms and/or allow the early vesting of the award having due regard to the object and purposes of the award;

- the award will be exercisable for a period of six months after the issue of a certificate by the company specifying the extent to which the performance conditions have been met following the end of the performance period and will lapse if not exercised by then. This period may be extended if Charlie Cornish is prevented from exercising because of restrictions in place under the model code operated by the company. The company shall arrange for such certificate to be issued within nine months after the end of the performance period;
- the award is not capable of assignment and, until it is exercised, Charlie Cornish will have no right to vote in respect of the shares subject to the award;
- shares transferred pursuant to the exercise of the award will rank *pari passu* in all respects with the shares in the company already in issue; and in the event of any increase or variation in the share capital of the company, the remuneration committee may recommend such adjustment to the award as it considers reasonable.

The provisions under the scheme for Charlie Cornish which relate to:

- the person to whom the award may be made;
- the limits on the number of shares which may be used under the scheme;
- the maximum entitlement of Charlie Cornish;
- the basis for determining Charlie Cornish's entitlement to the award or shares pursuant to it; and
- the basis for determining the adjustment of the award granted under the scheme following any increase or variation in the share capital of the company cannot be amended to the advantage of Charlie Cornish without the prior approval of the shareholders in general meeting (except for minor amendments to benefit the administration of the long-term incentive scheme, to take into account any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Charlie Cornish or the company or members of its group). The benefits to Charlie Cornish under the scheme are not pensionable. Details of Charlie Cornish's scheme interest are shown in table 31.

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Table 31: Charlie Cornish's continuing scheme interests in his special long-term incentive scheme (audited information)

Award date	Performance period	Market price of a share at award pence	Award details		Contingent scheme interest at 1 April 2006		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2007	
			No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000	No. of shares	Value £'000
16.3.07	1.4.06 to 31.3.10	723.0	47,027	340.0	–	–	50,022	361.1	50,022	377.9

Notes:

- The market price of a share at award is the mid-market price of a share at close of business on the day before the award date.
- The contingent scheme interest awarded during the year comprises the initial award of 47,027 shares and 2,995 shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2007 has been calculated using the mid-market price of a share of 755.5 pence at close of business on 30 March 2007.

Pension arrangements

Several pension schemes operate within the group. The group, with trustee agreement where required, has made the rule changes necessary to ensure that the schemes qualify as registered pension schemes under the new legislative regime. The executive directors are all members of the United Utilities Pension Scheme (UUPS).

The remuneration committee recognises that pension is an important but potentially costly element of remuneration. Decisions have previously been made to close entry to the defined benefit section of UUPS to newly recruited directors and other senior executives, not to introduce any new unfunded unapproved arrangements to provide pension benefits above those approved by HM Revenue & Customs and to close entry to the defined benefit executive section (which provides enhanced benefits for existing scheme members).

Newly recruited executive directors may join the defined contribution section of UUPS. They may make a regular contribution of up to seven per cent of basic pay and may make additional voluntary contributions. The company contributes up to 25 per cent of basic pay.

When scheme members reach the lifetime allowance they are given the choice of continuing to accrue benefits within the pension scheme (and pay the higher tax charge for which no compensation will be paid) or be paid a cash allowance instead of accruing further pension benefits. The cash allowances are calculated as a percentage of salary and do not exceed the cost of the company's pension contributions. A cash allowance of 12 per cent is payable in lieu of the standard defined contribution rate of 14 per cent, 22 per cent in lieu of the enhanced defined contribution rate of 25 per cent and 25 per cent in lieu of the company's contribution for members in the defined benefit section of the pension scheme. As at 31 March 2007, no executive had taken the cash alternative.

Directors' regular contribution rates are levied on their pensionable pay, provided the amount for the year, when added to the company's contribution, does not exceed the annual allowance.

During the year the company made available to all members of the company's pension schemes, the opportunity to participate in a 'salary sacrifice' arrangement. The arrangement allows pension scheme members to cease making their regular pension contributions. Their gross salary is correspondingly reduced by the value of the regular contributions they would have made to the pension scheme. For members of the defined contribution section, the company makes an additional contribution equal to the regular contribution that would have been paid by the member. The arrangement does not affect accrued or the future accrual of benefits for members of defined benefit plans.

Directors' pension arrangements

Philip Green, Charlie Cornish and Tim Weller are members of the defined contribution section. Prior to participating in the salary sacrifice arrangement, Philip Green's regular contribution rate was three per cent of basic salary. The company contributed six per cent of basic salary to the pension scheme and an additional 19 per cent to his private pension plan. Charlie Cornish and Tim Weller contributed seven per cent and the company 25 per cent of their basic salary to the pension scheme. The normal pension age is 65.

Simon Batey's, Tom Drury's and Gordon Waters' pension arrangements fell within the defined benefit section which is now closed to new executives. The scheme provides a pension for them on normal retirement at age 60 based on a maximum accrual rate of 1/30th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from age 50 if the company agrees. In the event of early retirement, pension benefits are actuarially reduced. The regular contribution rate to the scheme for Simon Batey was five per cent and for Tom Drury and Gordon Waters six per cent of their pensionable pay. Simon Batey, Tom Drury and Gordon Waters participated in the company's salary sacrifice scheme. They, therefore, all ceased making regular contributions to the pension scheme.

Pension benefits are calculated on basic salary only. Tom Drury and Gordon Waters previously had a contractual entitlement to a pensionable bonus. Their bonus is no longer pensionable. To partially offset the reduction in their pensionable pay calculation, their pension benefits are based on notional pensionable pay of 1.225 and 1.3 times their basic pay respectively.

Employer funded retirement benefit scheme (EFRBS)

Arising from previous policy, the company had in place unfunded unapproved arrangements (now known as employer funded retirement benefit schemes) for Simon Batey, Tom Drury and Gordon Waters (and a limited number of other senior executives), the intention of which was to provide pension benefits calculated on the same basis as for executives whose pensionable earnings were not limited by the former earnings cap.

The committee decided to offer to deferred pensioners and those in receipt of pension benefits the option to transfer within three months from 6 April 2006 part or all of their unfunded arrangement to the registered pension scheme. Those in receipt of pension benefits were also offered until 6 July 2006 the facility to exchange their ongoing unfunded benefits for a cash lump sum. During the year this offer was extended to current executives and deferred members with EFRBS arrangements.

Current executives with unfunded arrangements (all of whom were members of the defined benefit section of UUPS) were given the choice of transferring the value of part or all of their accrued unfunded benefit into the registered pension scheme or to retain it under the EFRBS or to exchange it for a cash lump sum. They were also given the choice of whether all future pension accrual should be within the registered scheme, or whether any benefits generated in excess of the lifetime allowance should accrue under EFRBS.

At 31 March 2007, there were eight EFRBS arrangements in place. One related to a current executive, two to deferred pensioners and five to pension benefits in payment. Further information on payments made during the year and the total cost of the unfunded arrangements is given in note 19 to the accounts.

Directors' accrued pension benefits

The pension benefits earned during the year by directors who were members of the defined benefit section of the pensions scheme are shown in table 32.

During the year ended 31 March 2007, the company paid contributions totalling £182,349 (2005/06: £nil) to the defined contribution section of the pension scheme and to a personal pension plan for Philip Green in respect of 2006/07. Contributions totalling £96,900 (2005/06: £56,875) for Charlie Cornish and £85,073 (2005/06: £nil) for Tim Weller were made to the defined contribution section of the pension scheme. These figures include amounts of £12,163, £11,900 and £16,333 respectively for Philip Green, Charlie Cornish and Tim Weller in substitution for their regular pension scheme contributions and for which there was a corresponding reduction in the amounts shown as their gross salaries in table 16. In addition, contributions totalling £24,442 were made in respect of 2005/06 for the period of Philip Green's employment during that year.

Contracts of service and compensation for termination

The company's policy is that the executive directors normally have one-year notice periods. The company may offer a longer notice period if it considers that necessary to recruit a new director. If it offers an initial notice period of more than one year, it will usually

reduce that to a rolling one-year notice period after the initial period has expired. At 31 March 2007, all current executive directors had one-year notice periods.

Contracts terminate automatically upon the director reaching age 65 unless the company agrees that a director may continue to work after attaining that age. No special arrangements apply if there is a change of control.

As at 31 March 2007, service contracts did not provide explicitly for termination payments (other than for holidays due but not taken), liquidated damages or payments in lieu of notice. If a contract is to be terminated, the remuneration committee will, in each circumstance, determine the compensation that will be paid, normally by reference to fixed elements of remuneration and the notice period. There is no automatic entitlement to payments under the annual bonus or performance share plan. Any annual bonus payment is at the discretion of the company. Performance share plan vesting is at the discretion of the trustees based on a recommendation from the remuneration committee and an award will not normally vest unless the termination is for a 'good leaver' reason such as retirement or because of ill health, or there are other special circumstances. Payments are then pro-rated and subject to the performance conditions on which awards were granted (modified if appropriate) being satisfied.

The committee will apply such mitigation it considers is fair and reasonable. It will take into account the best practice provisions of the Combined Code and will take legal advice on the company's liability to pay compensation. Its policy is to take a robust line on reducing compensation. It may phase payments to reflect a departing employee's obligation to mitigate loss. The committee reviews this policy each year. No changes were made during the year. However, after the end of the year, the committee reviewed its policy on compensation for termination and introduced a liquidated damages provision for future contracts.

Simon Batey left the company on 31 July 2006. Details of his leaving arrangements were disclosed in the 2006 remuneration report, except for the benefit arising from calculating his pension

Table 32: Executive directors' pension benefits (defined benefit scheme) (audited information)

	Accumulated total accrued pension at 1 April 2006			Pension accrued during the year			Accumulated total accrued pension at 31 March 2007	
	£'000 p.a.	Transfer value £'000	Increase net of inflation ⁽¹⁾ £'000 p.a.	Director's contributions £'000	Transfer value of net increase ⁽²⁾ £'000	Total change in transfer value ⁽³⁾ £'000	£'000 p.a.	Transfer value £'000
Simon Batey	72.2	1,161.4	11.7	15.5	176.8	211.2	84.6	1,388.1
Tom Drury	123.3	1,524.3	7.4	23.2	67.9	135.4	136.1	1,682.9
Gordon Waters	132.4	2,651.0	12.7	18.4	240.5	381.7	149.1	3,051.1

Notes:

- Pension accruals shown are the amounts that would be paid annually on retirement based on service to the end of the year, or date of leaving employment or death if earlier.
- Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.
- The transfer value of the net increase in pension (2) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year end, or at the date of leaving employment or death if earlier. It is based on the accrued pension increase net of inflation (1) and is calculated after deducting the director's contribution and/or salary sacrifice.
- The total change in the transfer value (3) includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
- The transfer value represents a liability of the company to make pension payments in the future but not a sum paid to the individual.
- Simon Batey left the company on 31 July 2006. The increase in his accrued pension net of inflation of £11,716 a year includes £6,673 a year in respect of an augmentation to his deferred pension granted by the company as part of the compensation for his loss of office. The transfer value of the net increase in pension accrued of £176,843 includes the value of the augmentation of £109,530.
- Simon Batey, Tom Drury and Gordon Waters participated in the company's 'salary sacrifice' scheme. Instead of making member contributions to the pension scheme, their gross salaries disclosed in table 16 were reduced by the respective amounts shown as directors' contributions in table 32. These amounts are equivalent to what would have been their member contributions, based on their pensionable pay.
- Voluntary contributions paid by directors and resulting benefits are not shown.
- Gordon Waters died on 24 December 2006.

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on service to 31 January 2007 i.e. as if he had worked for the company until the end of his notice period. This information (which was not available at the time of last year's report) is included in the notes to table 32 on page 67.

Tom Drury was the managing director of Vertex Data Science Limited. He left the group on 31 March 2007 following the disposal of that company. After mitigation, he received a payment of £329,712 as compensation for loss of office. No allowance was made for loss of pension benefit accrual or loss of other benefits. Details of directors' contracts as at 31 March 2007 are set out in table 33.

Table 33: Executive directors' service contracts as at 31 March 2007

	Date of contract	Unexpired term (to 65th birthday)	Notice period
Philip Green	13.02.06	12.05.18	12 months (rolling)
Tim Weller	01.07.06	08.06.28	12 months (rolling)
Charlie Cornish	05.01.04	30.11.24	12 months (rolling)
Tom Drury	09.05.05	–	12 months (rolling)

Notes:

- Tom Drury left the company on 31 March 2007.
- No explicit contractual compensation for early termination (other than payment for outstanding holidays).

Paul Capell joined the company and was appointed to the board on 1 May 2007. His salary is £350,000 a year. As at the date of this report, he was not a member of the pension scheme. His contract has an unexpired term to 20 January 2022 (his 65th birthday) and provides for an initial notice period of 24 months, reducing to 12 months (rolling) after one year's service. The contract contains a liquidated damages provision whereby if it is terminated other than for specified causes related to misconduct or capability, the company will make an initial lump sum payment equivalent to one half of his notice entitlement in relation to his basic salary, employer pension contribution and car allowance payable under his contract. In addition he will receive further payments by instalments which in total will equate to the remaining half of his notice entitlement in relation to his basic salary, employer pension contribution and car allowance. The instalments will be made monthly beginning seven months from the date of termination of his employment and ceasing on the first anniversary of his termination date. The amount of the monthly payment will be reduced by the value of any salary, pension contribution and car allowance earned by him in new paid employment in that month.

Non-executive directorships

The company recognises that its executive directors may be invited to become non-executive directors of companies outside the group and exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the company. Subject to board approval (which will not be given if

the proposed appointment is with a competing company, would otherwise lead to a conflict of interest or could have a detrimental effect on a director's performance), executive directors are allowed to accept one non-executive directorship and to retain the fee. Simon Batey served as a non-executive director of Arriva plc, for which he earned and retained a fee of £13,333 from the start of the year up to his resignation on 31 July 2006. Simon Batey also represented the group as a non-executive director of THUS Group plc due to the group's investment in this company. This directorship was unpaid. On 17 November 2006, Tim Weller resigned from his non-executive directorship of Stanley Leisure plc. From the date of his appointment to the board of United Utilities PLC to the date of his resignation Mr Weller earned and retained £10,333 in respect of this directorship. Philip Green was appointed as a non-executive director of Lloyds TSB Bank plc on 10 May 2007.

Employee share schemes

The board believes that share ownership is an effective way of strengthening employees' involvement in the development of the business and bringing together their interests and those of shareholders. It offers employees the opportunity to build up a shareholding in the group.

The main all-employee scheme is the Inland Revenue approved share incentive plan, 'ShareBuy'. This is a flexible way for employees to acquire shares in the company by buying 'partnership' shares up to the lower of £1,500 or ten per cent of taxable pay each year. The funds are deducted from pre-tax pay and passed to an independent trustee who makes a monthly purchase of shares at full market price. Employees can reinvest the dividends on partnership shares to buy more shares under the plan. In 2004, the company introduced 'matching' shares. It gives one free share for every five partnership shares bought. The shares need to be held in trust for a five-year term in order to retain the maximum tax advantages.

Grants have also been made to employees through the SAYE share option savings scheme, 'ShareSave', whereby an employee is granted an option to buy shares at the end of a three or five-year term during which they can save up to £250 each month from their net pay. The option price is fixed at a price not lower than 20 per cent below the market price at the date of grant. The number of shares that can be bought is determined by the amount saved by the employee over the term. In addition to the executive directors, a limited number of senior executives also have the opportunity to acquire shares by participating in the group's performance share plan. This plan has replaced the grant of executive share options. Further information on the operation of the group's share schemes can be found in note 26 to the accounts on page 114.

Approved by the board of directors on 4 June 2007 and signed on its behalf by

David Jones

Remuneration committee chairman