

Governance

Directors' remuneration report

Approach to reward

The group must ensure that its remuneration arrangements attract and keep people of the right calibre in order to ensure 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 all 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.

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.

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 25 to the accounts.

Remuneration

During the year, the aggregate amounts of remuneration paid to all directors was £3,351,365 (2004 – £2,877,839). This includes annual bonuses earned and accrued in the year to 31 March 2005 but paid after the year end and the value of long-term incentives earned for the period ended 31 March 2004 paid during the year for executive directors. Details of amounts paid to each individual director are shown in tables 19 (non-executive directors) and 20

(executive directors). Table 20 also shows the values of annual bonuses earned by the executive directors in the previous year and paid in this year.

During the year, the aggregate amount of remuneration (as defined above) paid to senior managers was £2,507,136 (2004 – £2,373,342). Details of amounts paid to each individual officer are not required to be disclosed. However, their emoluments for the year are included, on a banded basis, in table 17.

Table 17: Senior managers' emoluments

| No. of managers | Total emoluments £'000 |
|-----------------|---------------------------|
| 1 | 450.0+ |
| 1 | 350.0 – 449.9 |
| 4 | 250.0 – 349.9 |
| 1 | <250.0 |

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, John Roberts, Simon Batey, Charlie Cornish, Tom Drury (from 9 May 2005) and Gordon Waters. The committee may take independent advice. It is also advised by the group's human resources director (Linda Booth). 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. The chairman's remuneration was reviewed during the year.

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 renewed. 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. Their letters of appointment can be inspected at the company's registered office. They set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them.

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 periodically, 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 and remuneration committees (Norman Broadhurst and John Seed respectively). Jane Newell's fee

Table 18: 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 | 2004 | 2005 | none | none |
| Norman Broadhurst | 01.04.1999 | 2002 | 2005 | none | none |
| David Jones | 03.01.2005 | n/a | 2005 | none | none |
| Jane Newell | 01.09.1996 | 2003 | 2006 | none | none |
| Andrew Pinder | 01.09.2001 | 2002 | 2005 | none | none |
| Nick Salmon | 04.04.2005 | n/a | 2005 | none | none |
| John Seed | 01.03.1996 | 2002 | 2005 | none | none |

Note:

- John Seed will not be seeking reappointment at the AGM in July 2005.

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includes an amount to reflect additional responsibilities as chairman of the trustees of the company's major pension schemes from which she retired as chairman on 31 March 2005.

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, ShareSave scheme or ShareBuy. The company repays the reasonable expenses they incur in carrying out their duties as directors.

Non-executive directors' remuneration

Non-executive directors' fees (other than the chairman's) were increased on 1 May 2004. This was the first increase since May 2002. The base fee is £45,000 a year. The annual fee paid to Sir Peter Middleton, deputy chairman, is £80,000. The additional fees paid to the chairmen of the audit and remuneration committees are £10,000 and £7,500 a year respectively. On 1 July 2004, the chairman's fee increased to £198,000 a year. This was the first increase since his appointment in January 2001. The next review of non-executive directors' fees will be in September 2005 and annually thereafter. Non-executive directors' remuneration for the year to 31 March 2005 is set out in table 19.

Table 19: Non-executive directors' fees (audited information)

| | 2005 £'000 | 2004 £'000 |
|---------------------|---------------|---------------|
| Sir Richard Evans | 193.5 | 180.0 |
| Norman Broadhurst | 53.8 | 40.0 |
| David Jones | 11.0 | – |
| Sir Peter Middleton | 78.3 | 60.0 |
| Jane Newell | 73.3 | 55.0 |
| Andrew Pinder | 89.2 | 35.0 |
| John Seed | 51.5 | 40.0 |
| Total | 550.6 | 410.0 |

Notes:

- David Jones was appointed to the board on 3 January 2005. His yearly fee is £45,000.
- Nick Salmon was appointed to the board on 4 April 2005. His yearly fee is £45,000.
- Since August 2004, Andrew Pinder received an additional fee in his capacity as a non-executive director of Vertex Data Science Limited. During the year fees of £45,000 were paid. These are included in the figure above.
- Jane Newell's fee includes an additional amount of £30,000 paid to her in her capacity as chairman of the company's pension schemes' trustee.

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 directors and managing directors of subsidiary businesses and functional directors at the group's corporate centre who form the executive leadership team.

The committee's members are John Seed (Chairman), Norman Broadhurst, David Jones (from 24 January 2005), Sir Peter Middleton, Jane Newell, Andrew Pinder and Nick Salmon (from 4 April 2005), all non-executive directors. The committee's terms of reference are available to shareholders on request and are on the company's web site 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 management whose specific terms 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. Addleshaw Goddard and 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 company and other companies in the group.

The committee is assisted by the chief executive (John Roberts), who is consulted on proposals relating to the remuneration of the other executive directors and senior executives and by Linda Booth, the group human resources director. The chief executive and group human resources director 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 considers fully the principles of good governance and the code of best practice. It met six times in the year to 31 March 2005. Individual attendance at the meetings is stated in the corporate governance report on page 49.

During the year, matters considered by the committee included:

- the 2004 salary review for executive directors and other senior executives;
- awards payable under the 2003/04 annual bonus plan and the measures and targets for the 2004/05 and 2005/06 plans;
- the operation of the performance share plan, including implementing rule revisions agreed by shareholders at the 2004 annual general meeting, the size of and performance conditions to apply to the 2004/05 grant of awards, the introduction of a cash based international plan to replace the performance share plan for a limited number of senior executives in overseas jurisdictions (in accordance with authority given by shareholders in 2000), and monitoring ongoing performance against the conditions applying to previous grants and the vesting of the 2001/02 awards;
- the implications of tax simplification legislation on pension policy and provision for executives;
- monitoring of executive shareholdings against target; and
- the form and content of the remuneration report in light of developments in stakeholder views and evolving best practice on disclosure.

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.

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 about the same size and complexity;
- use short and long-term incentives to encourage executives to outperform 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.

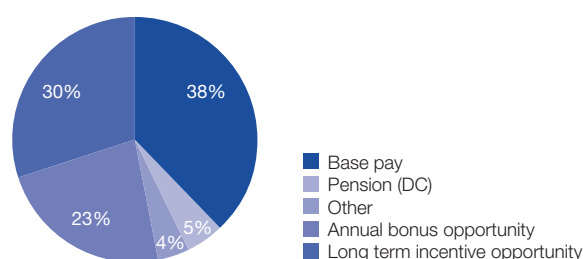
In deciding the executive directors' total remuneration package and individual elements of it, the remuneration committee assesses where the company should be positioned relative to other companies.

It makes appropriate comparisons but treats them with caution. The company aims to pay about the market median but may pay more for an outstanding performer or to attract executives of the right calibre. Earnings may be increased through the operation of annual and long-term incentive plans.

The committee aims to achieve an appropriate balance between fixed and variable rewards consistent with and reflecting the group's profile. 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.

Chart 1 sets out the forward policy for an executive director's annual total reward opportunity.

Chart 1: Executive directors' annual total reward opportunity



Notes:

- The figures are the percentage of total reward opportunity that each element represents.
- Pension refers to defined contribution scheme with the highest matched regular company contribution of 14 per cent of basic pay.
- The proportions for annual bonus and long-term incentive are based on maximum award opportunities of 60 per cent and 80 per cent of salary respectively; actual values will depend on performance.

Fixed rewards include basic salary, a car allowance or company car and fuel for private mileage, medical 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. Awards are non-pensionable and provide the opportunity to earn up to a further 60 per cent and 80 per cent of basic salary (annual bonus and long-term incentive respectively) each year. Variable rewards account for over 50 per cent of total annual reward opportunity for executive directors.

The company requires 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. To assist them in satisfying this minimum share ownership target, it may pay incentive awards partly or wholly in shares.

Detailed policy in relation to each element of executive directors' remuneration is set out below. The board continually reviews its policy in the light of emerging best practice. Changes have been made to the structure of the 2005/06 annual bonus for executive directors and other managing directors with responsibility for specific businesses. Amendments have also been made to pension policy to be effective from the introduction of tax simplification legislation in 2006. These are reported below.

During 2005/06, the committee intends to review the operation of the group's incentive arrangements in the light of evolving stakeholder interest and market practice and to ensure that rewards remain aligned to shareholder interests. It is the board's policy that shareholders will be invited specifically 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. Any significant proposed changes will be submitted to the annual general meeting in 2006 for shareholder approval.

Executive directors' remuneration 2004/05

Executive directors' emoluments and the value of the long-term incentive vesting during 2004/05 are set out in table 20.

A Salary

The remuneration committee reviews salaries each year taking account of group and personal performance. Any changes are effective from 1 September. It commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity and

Table 20: Executive directors' remuneration (audited information)

| | Gross salary | | Annual bonus | | Other benefits | | Total emoluments | | Long-term incentive vesting during the year ended 31 March | |
|-----------------|---------------|---------------|---------------|---------------|----------------|---------------|------------------|---------------|--|---------------|
| | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 | 2005 £'000 | 2004 £'000 |
| John Roberts | 494.0 | 467.5 | 281.6 | 280.5 | 38.4 | 35.6 | 814.0 | 783.6 | 200.8 | 227.7 |
| Simon Batey | 339.6 | 317.5 | 193.6 | 190.5 | 18.6 | 18.0 | 551.8 | 526.0 | 163.3 | 186.1 |
| Charlie Cornish | 243.7 | 42.3 | 138.9 | 25.4 | 107.7 | 80.8 | 490.3 | 148.5 | - | - |
| Les Dawson | - | - | - | - | - | - | - | - | - | 118.0 |
| Gordon Waters | 288.2 | 259.2 | 164.3 | 155.5 | 13.3 | 26.7 | 465.8 | 441.4 | 114.9 | 130.2 |
| Total | 1,365.5 | 1,086.5 | 778.4 | 651.9 | 178.0 | 161.1 | 2,321.9 | 1,899.5 | 479.0 | 662.0 |

Notes:

- John Roberts was the highest paid director in the year ended 31 March 2005.
- The value of the long-term incentive vesting during the year ended 31 March 2005 is based on the share price when the options were exercised. The awards relate to the three-year performance period which ended on 31 March 2004.
- 'Other benefits' include the taxable value of the car or car allowance, private fuel, medical insurance and life insurance element of pension benefits.
- Charlie Cornish was appointed to the board on 27 January 2004. His other benefits during the year ended 31 March 2005 include a non-pensionable salary supplement of £18,500 a year to compensate him for lost pension benefits from his previous employment (2004: £3,332) and relocation costs of £72,458 (2004: £74,043).

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takes account of the levels of pay awards elsewhere in the group. In this way it aims to establish whether and what level of increase should apply and whether there should be any departures from this, for example, to ensure that salaries are competitive but consistent with the application of board policy on executive remuneration. Following its annual review in 2004, the following changes were made to the annual salaries of executive directors:

Table 21: Executive directors' salary review

| | 1 September 2004 £'000 | 1 September 2003 £'000 |
|-----------------|------------------------------|------------------------------|
| John Roberts | 504.0 | 480.0 |
| Simon Batey | 346.5 | 330.0 |
| Charlie Cornish | 250.0 | – |
| Gordon Waters | 294.0 | 280.0 |

Note:

- Charlie Cornish was appointed to the board on 27 January 2004 at a yearly salary of £235,000.

B Annual bonus

The annual bonus is designed to motivate executive directors and other senior executives to achieve the group's key operational and strategic objectives. The maximum award is 60 per cent of yearly basic earnings. Directors are rewarded according to the company's financial and non-financial performance for the year and the achievement of individual targets. Targets are set each year. The non-financial and individual targets may include personal objectives and performance against other key stakeholder measures. Annual bonus awards are normally paid in cash. However, the committee may pay them partly or wholly in shares.

(a) 2005/06

The remuneration committee has decided that, for the 2005/06 annual bonus plan, financial measures will account for bonus payments worth up to 48 per cent of salary. The financial measures will be group profit before exceptional items, interest and tax (PBEIT) and group profit before exceptional items and tax (PBET). Business managing directors will also have targets based on the PBEIT and PBET performance of their business.

Financial measures have sliding scales of vesting. One quarter of the maximum award becomes payable when 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 midway 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.

One fifth of the annual bonus, accounting for 12 per cent of salary, will depend on performance in other areas of the group's activities and the achievement of individual objectives. It has been decided to replace performance in the Business in the Environment's (BiE) Index with performance in the Business in the Community's Corporate Responsibility Index (CRI). The CRI is an authoritative and broader external benchmark of responsible business practice

Table 22: Executive directors' annual bonus plan measures 2005/06

| | Financial maximum award | | | | Non-financial maximum award | | | Total % |
|-----------------|-------------------------|--------------|------------------|-----------------|-----------------------------|-------------------------|-----------------------|---------|
| | Group PBEIT % | Group PBET % | Business PBEIT % | Business PBET % | Corporate responsibility % | Employee satisfaction % | Personal objectives % | |
| John Roberts | 24 | 24 | – | – | 3 | 3 | 6 | 60 |
| Simon Batey | 24 | 24 | – | – | 3 | 3 | 6 | 60 |
| Charlie Cornish | 18 | 18 | 6 | 6 | 3 | 3 | 6 | 60 |
| Tom Drury | 18 | 18 | 6 | 6 | 3 | 3 | 6 | 60 |
| Gordon Waters | 18 | 18 | 6 | 6 | 3 | 3 | 6 | 60 |

Note:

- Figures are maximum awards expressed as a percentage of salary.

in relation to the environment and society. Achieving the target of 94 per cent for the group's score in the CRI will result in a three per cent bonus being paid. A further three per cent is allocated for achieving improvements in employee satisfaction measured by responses to questions in an externally conducted and verified employee opinion survey. Individual objectives account for a further six per cent bonus.

The executive directors' annual bonus plan for 2005/06 is summarised in table 22.

(b) 2004/05

The financial measures to determine annual bonuses for 2004/05 were group PBEIT and PBET. The maximum bonus opportunity allocated to each of these targets was 24 per cent. Non-financial targets accounted for up to 12 per cent of salary of which three per cent was based on the group score in the BiE index, three per cent on scores in the 2004/05 employee opinion survey and six per cent on the achievement of individual objectives.

The stretch PBET and PBEIT targets were achieved. The total payable for performance against financial targets was, therefore, 48 per cent. The environmental target of 96 per cent was achieved (performance = 96.47 per cent). The employee-related targets (based on the results of the employee opinion survey) were not achieved. Each director achieved their individual objectives. Therefore, a nine per cent bonus was payable, bringing the overall bonus payable to a total of 57 per cent of salary.

The outcome of the 2004/05 annual bonus plan for executive directors is shown in table 23.

(c) Prior year annual bonuses paid in deferred shares

Half of the value of the 2000/01 annual bonus awards for executive directors was satisfied by the grant in June 2001 of contingent rights to receive shares in the company to be purchased in the market by the company's employee share trust. The right to these shares may have been forfeited in certain circumstances if an executive was not in the company's employment when the shares were due to be transferred to him from the trust in June 2004.

The company did not match the number of deferred shares and there were no additional performance measures associated with the release of these shares. The shares were released in June 2004 as shown in table 24.

C Other benefits

Directors are paid a car allowance of £14,000 a year (or have the use of a company car of broadly equivalent cost where business use warrants it), are reimbursed fuel for business and private use, and are provided with medical and life insurance. Charlie Cornish is paid a non-pensionable salary supplement of £18,500 a year to compensate him for the reduction in employer contribution rate to his pension scheme relative to his previous employment.

D Long-term incentives

Executive directors and other senior executives participate in the performance share plan. Participation is 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

Table 23: Executive directors' annual bonus plan outcome 2004/05

| | Financial maximum award | | Non-financial maximum award | | | Total |
|-----------------|-------------------------|------------|-----------------------------|-----------------------|---------------------|-------|
| | Group PBEIT | Group PBET | Environmental performance | Employee satisfaction | Personal objectives | |
| Actual award: | 24% | 24% | 3% | 3% | 6% | 60% |
| John Roberts | 24 | 24 | 3 | – | 6 | 57 |
| Simon Batey | 24 | 24 | 3 | – | 6 | 57 |
| Charlie Cornish | 24 | 24 | 3 | – | 6 | 57 |
| Gordon Waters | 24 | 24 | 3 | – | 6 | 57 |

Note:

- Figures are percentage of salary.

of shares (or, at the discretion of the trustee, the cash equivalent) 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 10 per cent and 60 per cent of salary. Grants are normally made within 42 days of the publication of results. The main grant 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 on the group's performance against specified targets over a performance 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 (a) the company's total shareholder return (TSR) performance when compared with the TSR performance of a group of other companies and (b) underlying business performance.

TSR is widely accepted as an easily understood and 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 inclusion of appropriate companies in the 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 remuneration committee determines the composition of the comparator group when awards are granted

each year. It has the discretion to make subsequent adjustments to the group or the period over which relative TSR is measured during the performance period, for example, following a takeover bid or merger/demerger announcement, to maintain the integrity of the plan. During the year, the remuneration committee considered the treatment of changes affecting companies in the comparator groups for awards made in 2002/03 and 2003/04. These are reported below.

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 33 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. It may, therefore, materially change the level of award vesting. 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 will be adopting principles in due course to deal with 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 is terminated 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. The maximum number of shares in an award is pro-rated to service

Table 24: Executive directors' contingent interests in deferred shares relating to past bonus awards (audited information)

| | Award in respect of | Contingent interest in shares at date of award | | Contingent interest in shares at 1 April 2004 | | Contingent interest in shares added during the year | | Shares transferred to executive during the year | | Contingent interest in shares at 31 March 2005 | |
|---------------|---------------------|--|-------------|---|-------------|---|-------------|---|-------------|--|-------------|
| | | No. | Value £'000 | No. | Value £'000 | No. | Value £'000 | No. | Value £'000 | No. | Value £'000 |
| | | | | | | | | | | | |
| John Roberts | 2001 | 12,906 | 84.2 | 19,444 | 101.4 | – | – | 19,444 | 106.2 | – | – |
| Simon Batey | 2001 | 10,766 | 70.2 | 16,218 | 84.6 | – | – | 16,218 | 89.4 | – | – |
| Gordon Waters | 2001 | 7,484 | 48.8 | 11,273 | 58.8 | – | – | 11,273 | 61.6 | – | – |

Notes:

- The awards were made on 1 June 2001 under the terms of the deferred share plan whereby 50 per cent of the value of the 2000/01 annual bonus was paid as contingent shares to be held in trust for three years, based on a share price of 652.0 pence. This was the average of the mid-market price of a share for the three business days immediately prior to 1 June 2001.
- The increase in the contingent interest in shares between the date of the award and 1 April 2004 results from a notional reinvestment of dividends that would have been paid on these shares in that period and an adjustment to take account of the rights issue (based on the ratio of the last quoted cum-rights share price of 531.5 pence to the theoretical ex-rights price of 459.54 pence).
- The value of the contingent interest in shares on 1 April 2004 is based on the mid-market price of a share on that day of 521.5 pence.
- The value of the shares transferred to executives during the year is based on the market price of a share at the date and time of transfer.

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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 periodically buys 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 1 June 2005 are given on page 35.

(a) 2005/06 grant

The proposed 2005/06 awards to each director will be an option to acquire shares worth up to a potential value of 80 per cent of their annual salary at grant. It is expected that the TSR comparator group will comprise 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 Transco, Northumbrian Water, Pennon Group, Scottish & Southern Energy, Scottish Power, Severn Trent, and Viridian. The performance period will be 1 April 2005 to 31 March 2008. 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 proposed scale of vesting is set out in table 25.

Table 25: 2005/06 grant proposed vesting scale

| | | 2005-06 plan | |
|--|--|------------------------|-------------|
| Comparator group size (No. of companies) | | 17 | |
| Ranking | | % 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 | | 0 | 0 |

(b) 2004/05 grant

During the year, awards to a maximum value of 80 per cent of annual salary were made to directors 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 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 Transco, Northumbrian Water, Pennon Group, Scottish & Southern Energy, Scottish Power, 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. There have been no changes during the year. Awards will vest after 31 March 2007 provided that the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the company's underlying business performance.

(c) 2003/04 grant

The extent to which awards vest is based in part on the company's TSR performance relative to the comparator group of companies over the period 1 April 2003 to 31 March 2006. The comparator group comprises 15 companies in addition to United Utilities. During 2004/05, British Energy delisted. It has been retained in the comparator group and United Utilities' TSR performance relative to it will be compared from the beginning of the performance period until the delisting. The test against measures of underlying business performance will take account of performance against 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.

(d) 2002/03 grant

The extent to which awards vest is based in part on the company's TSR performance relative to the comparator group of companies over the period 1 April 2002 to 31 March 2005. At the beginning of the performance period the comparator group comprised 18 companies in addition to United Utilities. Lattice Group was subsequently excluded from the group following its merger with National Grid Group. During 2004/05, British Energy delisted. It has been retained in the comparator group and United Utilities' TSR performance relative to it will be compared from the beginning of the performance period until the delisting.

Details of directors' continuing scheme interests in the performance share plan, including those awarded during the year, are set out in table 26.

Table 26: Executive directors' continuing scheme interests in the performance share plan (audited information)

| | Award date | Performance period | Maximum value at award date | | Award details | | Contingent scheme interest at 1 April 2004 | | | Contingent scheme interest awarded during the year | | Contingent scheme interest at 31 March 2005 | | | |
|------------------------|-------------------|--------------------|-----------------------------|-------|--|--------------------|--|------------------|--------------------|--|--------------------|---|---------------|--------------------------------|------------------------------|
| | | | % of salary | £'000 | Market price of a share at award pence | Max. no. of shares | Max. no. of shares | Max. value £'000 | Max. no. of shares | Max. value £'000 | Max. no. of shares | Max. value £'000 | | | |
| John Roberts | | | | | | | | | | | | | | | |
| 2002/03 | 1.10.02 | 1.4.02 to 31.3.05 | 80 | 360.0 | 587.5 | 61,276 | 70,872 | 369.6 | – | – | – | – | 70,872 | 447.2 | |
| 2003/04 | Ordinary A shares | 29.9.03 | 1.4.03 to 31.3.06 | 80 | 360.0 | 469.0 276.0 | 57,843 32,135 | 57,843 32,135 | 301.7 103.6 | – | – | – | – | 57,843 32,135 | 365.0 144.8 |
| 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 | – – | – – | 51,885 28,825 | 283.8 100.2 | – | – | 51,885 28,825 | 327.4 129.9 |
| Total | | | | | | | | | 774.9 | | 384.0 | | | 1,414.3 | |
| Simon Batey | | | | | | | | | | | | | | | |
| 2002/03 | 1.10.02 | 1.4.02 to 31.3.05 | 80 | 240.0 | 587.5 | 40,851 | 47,248 | 246.4 | – | – | – | – | 47,248 | 298.1 | |
| 2003/04 | Ordinary A shares | 29.9.03 | 1.4.03 to 31.3.06 | 80 | 240.0 | 469.0 276.0 | 38,556 21,420 | 38,556 21,420 | 201.1 69.0 | – | – | – | – | 38,556 21,420 | 243.3 96.5 |
| 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 | – – | – – | 35,658 19,810 | 195.1 68.9 | – | – | 35,658 19,810 | 225.0 89.2 |
| Total | | | | | | | | | 516.5 | | 264.0 | | | 952.1 | |
| Charlie Cornish | | | | | | | | | | | | | | | |
| 2003/04 | Ordinary A shares | 7.1.04 | 1.4.03 to 31.3.06 | 80 | 188.0 | 490.0 297.0 | 28,710 15,950 | 28,710 15,950 | 149.7 51.4 | – | – | – | – | 28,710 15,950 | 181.2 71.9 |
| 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 | – – | – – | 25,407 14,115 | 139.0 49.0 | – | – | 25,407 14,115 | 160.3 63.6 |
| Total | | | | | | | | | 201.1 | | 188.0 | | | 477.0 | |
| Gordon Waters | | | | | | | | | | | | | | | |
| 2002/03 | 1.10.02 | 1.4.02 to 31.3.05 | 80 | 184.0 | 587.5 | 31,319 | 36,224 | 188.9 | – | – | – | – | 36,224 | 228.6 | |
| 2003/04 | Ordinary A shares | 29.9.03 | 1.4.03 to 31.3.06 | 80 | 184.0 | 469.0 276.0 | 29,565 16,425 | 29,565 16,425 | 154.2 52.9 | – | – | – | – | 29,565 16,425 | 186.6 74.0 |
| 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 | – – | – – | 30,258 16,810 | 165.5 58.5 | – | – | 30,258 16,810 | 190.9 75.7 |
| Total | | | | | | | | | 396.0 | | 224.0 | | | 755.8 | |

Notes:

- The maximum values shown for 1 April 2004 and 31 March 2005 have been calculated using the mid-market price of a share at close of business on the relevant date (1.4.04 = 521.5 pence (ordinary share) and 322.25 pence ('A' share); 31.3.05 = 631.0 pence (ordinary share) and 450.5 pence ('A' share).
- The maximum number of shares comprising the contingent scheme interest at 31 March 2004 for the 2002/03 awards incorporates an adjustment to take account of the rights issue. The values of the 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 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 (2002-03 awards unadjusted for the rights issue). This is used to calculate the maximum number of shares comprised in 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.
- Details of the criteria used for grants under the performance share plan are on pages 42 to 44.

Governance

Directors' remuneration report continued

Table 27: Performance share plan vesting scales

| Comparator group size (No. of companies) | 2002/03 plan | | 2003/04 plan | | 2004/05 plan | |
|---|------------------------|-------------|------------------------|-------------|------------------------|-------------|
| | % of max award vesting | % of salary | % of max award vesting | % of salary | % of max award vesting | % of salary |
| 1 to 4 | 100 | 80 | 100 | 80 | 100 | 80 |
| 5 | 97 | 77.6 | 88 | 70.4 | 97 | 77.6 |
| 6 | 82 | 65.6 | 72 | 57.6 | 82 | 65.6 |
| 7 | 68 | 54.4 | 57 | 45.6 | 68 | 54.4 |
| 8 | 54 | 43.2 | 41 | 32.8 | 54 | 43.2 |
| 9 | 40 | 32 | 0 | 0 | 40 | 32 |
| 10 or below | 0 | 0 | 0 | 0 | 0 | 0 |

Table 28: Performance share plan TSR performance

| Performance period (No. of companies) | 2002/03 plan 1.4.02 to 31.3.05 | | | 2003/04 plan 1.4.03 to 31.3.06 | | | 2004/05 plan 1.4.04 to 31.3.07 | | |
|--|-----------------------------------|--------------|---------|-----------------------------------|--------------|---------|-----------------------------------|--------------|---------|
| | Date | Period TSR % | Ranking | % vesting | Period TSR % | Ranking | % vesting | Period TSR % | Ranking |
| 31.3.05 | 39.9 | 5 | 97 | 30.4 | 8 | 41 | 42.7 | 7 | 68 |

Notes:

- Period TSR is the cumulative total shareholder return from the beginning of the respective performance period until 31 March 2005.
- Percentage vesting for the 2002/03 plan at 31 March 2005 indicates the proportion of the maximum award which will vest if the TSR performance is considered to be consistent with underlying financial performance.
- Percentage vesting for the 2003/04 and 2004/05 plans are notional indications of the proportion of the maximum award which would vest if the specified ranking was the company's position at the end of the respective performance period and was consistent with underlying business performance.

Table 27 above sets out the vesting scales for each of the performance share plans in operation at 31 March 2005.

The TSR performance at 31 March 2005 for each of the current plans is set out in table 28. The performance periods for the 2003/04 and 2004/05 plans do not end until 31 March 2006 and 31 March 2007 respectively.

(e) 2001/02 grant

During the year, awards granted under the 2001/02 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 2001 to 31 March 2004. At the beginning of the performance period the comparator group comprised the following 24 companies in addition to United Utilities: AWG, BAA, BG Group, Boots Company, British Energy, Capita Group, Centrica, Daily Mail & General Trust, Dixons Group, Imperial Tobacco Group, International Power, J Sainsbury, Kelda Group, Lattice Group, National Grid Group, Powergen, Railtrack, Safeway, Scottish & Newcastle, Scottish & Southern Energy, Scottish Power, Severn Trent, Viridian and Whitbread. Powergen was subsequently excluded from the comparator group as a result of the takeover bid announcement occurring within the first three months of the performance period. The announcements of the merger of National Grid Group and Lattice Group, the takeover bid for Safeway, takeover activity for AWG and the suspension of dealings in Railtrack shares occurred after the first three months of the performance period. All were retained in the comparator group. National Grid Group continued as National Grid Transco. United Utilities' TSR performance relative to the other companies was compared from the beginning of the performance period until the day before the merger (Lattice Group) or takeover activity announcements (Safeway and AWG) and the date of Railtrack's share suspension.

United Utilities' TSR for the performance period was 15.5 per cent which placed it eighth out of 24, resulting in 81 per cent of the maximum award vesting and 19 per cent lapsing. 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 2003/04 set out in the group's five-year business plan to 2005/06. The awards, therefore, vested in accordance with the company's relative TSR performance.

Further details of directors' scheme interests in the performance share plan, vested during the year, are set out in table 29.

Table 29: Executive directors' scheme interests in the performance share plan vested during the year (audited information)

| Award date | Performance period | % of salary | Maximum value at award date £'000 | Market price of a share at award pence | Award details | | | Contingent scheme interest at 1 April 2004 | Contingent scheme interest lapsed during the year | Contingent scheme vested interest during the year | Value of award at exercise | | |
|----------------------|--------------------|-------------------|--------------------------------------|---|--------------------|--------------------|------------------|--|---|---|--|-------------|-------|
| | | | | | Max. no. of shares | Max. no. of shares | Max. value £'000 | No. of shares | No. of shares | Value £'000 | Market price of a share at exercise pence | Value £'000 | |
| John Roberts | | | | | | | | | | | | | |
| 2001/02 | 9.7.01 | 1.4.01 to 31.3.04 | 80 | 256.0 | 652.0 | 39,263 | 45,412 | 236.8 | 8,629 | 36,783 | 199.5 | 546.0 | 200.8 |
| Simon Batey | | | | | | | | | | | | | |
| 2001/02 | 9.7.01 | 1.4.01 to 31.3.04 | 80 | 208.0 | 652.0 | 31,901 | 36,897 | 192.4 | 7,011 | 29,886 | 162.1 | 546.5 | 163.3 |
| Gordon Waters | | | | | | | | | | | | | |
| 2001/02 | 9.7.01 | 1.4.01 to 31.3.04 | 80 | 146.4 | 652.0 | 22,453 | 25,970 | 135.4 | 4,935 | 21,035 | 114.1 | 546.0 | 114.9 |

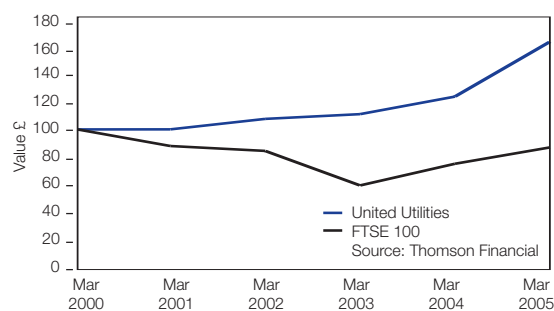
Notes:

- The market price of a share at award is the mid-market price of a share (unadjusted for the rights issue) 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 comprised in the award.
- The maximum values shown for 1 April 2004 have been calculated using the mid-market price of a share of 521.5 pence at close of business on that date.
- Awards vested on 1 June 2004 in respect of 81 per cent of the maximum number of shares under option and lapsed in respect of 19 per cent. The values for scheme interests vesting during the year have been calculated using the mid-market price of a share of 542.5 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 are 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. Simon Batey exercised his option on 14 June, John Roberts on 9 June, and Gordon Waters on 4 June 2004 over all of the shares that vested.

Performance graph

Chart 2 compares the company's annual total shareholder return (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 2000.

Chart 2: Total shareholder return



This graph shows the value, by 31 March 2005, of £100 invested in United Utilities on 31 March 2000 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, except for executive directors and a limited number of other executives who were granted awards under the performance share plan. There has been no grant of executive share options since 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 30.

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Directors' remuneration report continued

Table 30: Directors' ShareSave options (audited information)

| | At 1 April 2004 | Granted/(lapsed) during the year | Exercised during the year | At 31 March 2005 | Exercise price per share pence | First date exercisable | Last date exercisable |
|----------------------|--------------------|--|---------------------------------|---------------------|--------------------------------------|---------------------------|--------------------------|
| John Roberts | | | | | | | |
| ShareSave 2000 | 4,139 | – | 4,139 | – | 407.66p | 01.03.2005 | 31.08.2005 |
| Total | 4,139 | – | 4,139 | – | | | |
| Simon Batey | | | | | | | |
| ShareSave 2001 | 2,012 | – | 2,012 | – | 481.16p | 01.03.2004 | 31.08.2004 |
| ShareSave 2004 | 1,751 | – | – | 1,751 | 396.0p | 01.03.2007 | 31.08.2007 |
| Total | 3,763 | – | 2,012 | 1,751 | | | |
| Gordon Waters | | | | | | | |
| ShareSave 2002 | 2,648 | – | – | 2,648 | 432.3p | 01.03.2007 | 31.08.2007 |
| ShareSave 2003 | 382 | – | – | 382 | 423.66p | 01.03.2006 | 31.08.2006 |
| Total | 3,030 | – | – | 3,030 | | | |

Notes:

- The mid-market price of a share on 31 March 2005 was 631.0 pence and the range in the year was 505.0 pence to 662.5 pence.
- No amount is payable by a participant for the grant of a ShareSave option.
- Except for ShareSave 2004, the number of shares under option at 1 April 2004 and 31 March 2005 and the exercise prices reflect adjustments to take account of the rights issue.
- 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 £9,525 (2004 – £nil).

Executive directors' shareholdings

Executive directors are required to build up and retain a target shareholding equal to 1x yearly 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 which vest under its incentive plans. However, it has retained the option to pay the annual bonus in shares if it considers this to be appropriate. Executive directors' interests in shares, as at 31 March 2005, are listed in tables 12, 13 and 14 of the directors' report on pages 35 and 36. The value of these interests relative to their yearly salaries are shown in table 31 below.

Table 31: Executive directors' shareholdings

| | Yearly salary at 31 March 2005 £'000 | Value of shareholding at 31 March 2005 £'000 | Value of shareholding relative to yearly salary % | Target to be achieved by |
|-----------------|--|---|---|-----------------------------|
| John Roberts | 504.0 | 876.5 | 173.9 | 1 September 2004 |
| Simon Batey | 346.5 | 718.8 | 207.4 | 1 April 2005 |
| Charlie Cornish | 250.0 | 0.3 | 0.1 | 27 January 2009 |
| Gordon Waters | 294.0 | 312.2 | 106.2 | 1 June 2002 |

Note:

- The value of the shareholding is based on share prices of 631.34 pence (ordinary share) and 449.91 pence ('A' share). These are the share prices averaged over the final three months of the financial year.

Pension arrangements

The main pension scheme is the United Utilities Pension Scheme (UUPS). It provides pensions and other benefits to members within Inland Revenue limits.

The remuneration committee recognises that pension is an important but potentially costly element of remuneration. Decisions have previously been made to close the defined benefit section of the scheme to newly-recruited directors and other senior executives from 1 July 2003, and to stop entry to the defined benefit executive section (which provides enhanced benefits) for existing scheme members with effect from 1 April 2004. It was further agreed not to extend the use of unfunded arrangements to provide pension benefits above the Inland Revenue limits imposed on the pension scheme.

Newly-recruited executive directors may join the defined contribution section of the scheme. They may make a regular contribution of up to seven per cent of basic pay and additional voluntary contributions provided total contributions do not exceed the Inland Revenue's maximum, (i.e. 15 per cent) of the earnings cap. The company contributes at twice the member's regular contribution rate, the maximum being 14 per cent of basic pay (but not limited by the earnings cap). The normal pension age is 65. Charlie Cornish is a member of this section. He pays seven per cent of his pensionable pay subject to a maximum yearly contribution of 15 per cent of the earnings cap. The accrual of his pension benefits is currently limited by the earnings cap.

John Roberts, Simon Batey, Tom Drury and Gordon Waters are members of the defined benefit section. It 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. John Roberts and Simon Batey contribute five per cent and Tom Drury and Gordon Waters six per cent of their pensionable pay to the pension scheme subject to a maximum yearly contribution of 15 per cent of the earnings cap.

The Finance Act 1989 restricts the pension benefits that can be paid by the scheme as the earnings cap limits pensionable earnings for calculating benefits. Arising from previous policy, the company has put in place separate arrangements for John Roberts, Simon Batey, Tom Drury and Gordon Waters (and a limited number of other senior executives), the effect of which is to provide pension benefits calculated on the same basis as for executives whose pensionable earnings are not limited by the cap. These arrangements are unfunded. At 31 March 2005, there were 26 such arrangements in place. Ten related to current executives,

five to deferred pensioners and 11 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 26 to the accounts.

During the financial year ended 31 March 2005, the total amounts set aside or accrued by the company or its subsidiaries to provide pension, retirement or similar benefits for all directors and members of the executive leadership team as a group was £1,804,042. Non-executive directors do not participate in any of the company's pension schemes.

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.

The pension benefits earned by directors during the year are shown in table 32.

During the year, the remuneration committee considered the potential impact of legislative changes on pensions' policy. From April 2006, current Inland Revenue limits will cease to apply to benefits provided by the pension scheme under either the defined benefit or defined contribution sections. The trustees of the company's various pension schemes will be examining the rule changes necessary to ensure that the schemes qualify as registered pension schemes under the new regime. It is expected that there will be no change to the existing UUPS benefit limit of two thirds of pensionable pay for members of the defined benefit section. If a member's accrued fund exceeds the new lifetime allowance, the benefits payable by the scheme from that excess will be subject to a higher rate of income tax. There will be no arrangements to compensate members for any change in their personal tax liability.

Executives with unfunded arrangements are all members of the defined benefit section of UUPS. They will be given three months from the date on which the legislative changes take effect to decide whether to transfer the value of their unfunded benefit into the registered pension scheme. They may also choose whether all future fund accrual should be within the registered scheme or whether any benefit in excess of those generated within the lifetime allowance should accrue under the unfunded arrangement. There will be no arrangements to compensate for any change in personal tax liability on benefits payable by the registered pension scheme from any excess over the lifetime allowance.

The committee will further consider pension policy over the next year, particularly in relation to alternative arrangements to pension accrual.

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

| | Accumulated total accrued pension at 1 April 2004 | | Increase in accrued pension during the year | | | | Accumulated total accrued pension at 31 March 2005 | |
|---------------|---|----------------------|---|----------------------------|---|---|--|----------------|
| | £'000 p.a. | Transfer value £'000 | Increase net of inflation £'000 p.a. ⁽¹⁾ | Member contributions £'000 | Transfer value of increase (net of member contributions) £'000 ⁽²⁾ | Total change in transfer value (net of member contributions) £'000 ⁽³⁾ | Transfer value | |
| | | | | | | | £'000 p.a. | £'000 |
| John Roberts | 71.4 | 1,219.9 | 18.0 | 15.3 | 314.5 | 447.2 | 91.9 | 1,682.4 |
| Simon Batey | 42.3 | 526.6 | 12.8 | 15.3 | 161.3 | 239.6 | 56.6 | 781.5 |
| Gordon Waters | 88.6 | 1,464.0 | 19.5 | 15.3 | 331.0 | 498.5 | 111.2 | 1,977.8 |

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 retirement 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 date of leaving employment or retirement if earlier. It is based on the accrued pension increase (1) and is calculated after deducting the director's contribution.
- The 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.
- Voluntary contributions paid by directors and resulting benefits are not shown.
- The transfer value represents a liability of the company to make pension payments in the future but not a sum paid to the individual.
- During the year ended 31 March 2005, the company paid contributions for Charlie Cornish totalling £34,125 (2004 – £7,187) to the defined contribution section of the pension scheme.

Governance

Directors' remuneration report continued

Contracts of service and compensation for termination

The company's policy is that the executive directors and executive officers normally have one-year notice periods. The company may offer a longer notice period if it considers that necessary to recruit a new director or executive officer. 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. All the current executive directors have one-year notice periods.

Contracts terminate automatically upon the director reaching age 60 (Charlie Cornish: 65) unless the company agrees that a director may continue to work after attaining age 60 (Charlie Cornish: 65). No special arrangements apply if there is a change of control.

Service contracts do 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 may 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. A payment will not normally be made 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 and the amount of the compensation in each case. 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. Details of directors' and senior managers' contracts are set out in table 33.

Table 33: Executive directors' and senior managers' service contracts

| | Date of contract | Unexpired term (to 60th birthday•) | Notice period | Contractual compensation upon early termination |
|-----------------|------------------|---------------------------------------|---------------------|--|
| John Roberts | 01.09.99 | 02.03.06 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Simon Batey | 01.04.00 | 04.09.13 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Gordon Waters | 01.03.96 | 06.06.07 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Charlie Cornish | 05.01.04 | 30.11.24• | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Tom Drury | 09.05.05 | 14.09.21 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Linda Booth | 01.01.03 | 09.10.12 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Hugh Logan | 17.07.00 | 11.11.09 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Ian Priestner | 16.10.00 | 20.05.17 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |
| Tim Rayner | 01.04.98 | 04.08.20 | 12 months (rolling) | No explicit provision (other than payment for outstanding holidays) |

Note:

- The unexpired term for Charlie Cornish is to his 65th birthday.

Approved by the board of directors on 1 June 2005 and signed on its behalf by

John Seed

Remuneration committee chairman