

Governance

Corporate governance report

The Combined Code

In July 2003, the Financial Reporting Council in the UK issued a revised Combined Code on Corporate Governance which superseded the Combined Code published in 1998 (the 'Combined Code'). Throughout the year, the board has complied fully with the revised Combined Code and this report, together with the remuneration report on pages 37 to 48, give details of how these principles have been applied.

The Board of Directors

"Every company should be headed by an effective board, which is collectively responsible for the success of the company."
(Combined Code principle A.1)

The board is scheduled to meet ten times each year with additional meetings called if required. The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. In addition, it is responsible for business planning and risk management and for the development of group policies including such areas as health and safety, directors' and senior managers' remuneration and for social, environmental and ethical issues. Attendance by individual directors at meetings of the board and its committees during the year ended 31 March 2005 is shown in table 34 and full biographical details of the directors can be found on pages 33 and 34.

The chairman holds meetings with the non-executive directors without the executive directors present. Led by the senior independent director, the non-executive directors meet without the chairman present at least annually to appraise the chairman's performance. Directors have a right to ensure that any concerns they have, which cannot be resolved about the running of the company or a proposed action, are recorded in the board minutes. In addition, upon resignation a non-executive director is asked to provide a written statement addressed to the chairman, for circulation to the board, if they have any such concerns.

The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress. The board has formally delegated specific responsibilities to board committees, including the audit (see page 52), remuneration (see page 38), nomination (see 'Appointments to the board' on page 50), approvals and treasury committees. All board committees are provided with sufficient resources to undertake their duties.

The approvals committee considers and approves expenditure and investment proposals within limits delegated by the board. Its members are the executive directors, the managing director of Your Communications and the company secretary.

The treasury committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. Its members are the chairman and the executive

directors together with, for more significant or complex transactions, one other non-executive director.

The directors of subsidiary companies are legally responsible for those business entities. They are tasked with the delivery of the targets set within the budgets approved by the group board and for the implementation of group strategy and policy across their businesses. United Utilities Water PLC, for example, is a substantial business in its own right and its board includes two independent non-executive directors (Phillida Entwistle and Deborah Morton).

The company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors.

Chairman and chief executive

"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."
(Combined Code principle A.2)

Separate individuals have been appointed to the positions of chairman and of chief executive. The board has agreed clearly defined responsibilities for the roles and has adopted a set of guiding principles to govern the relationship between them. The chairman is primarily responsible for the working of the board. The chief executive is responsible for running the group's business and for implementing board strategy and policy.

Board balance and independence

"The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking." (Combined Code principle A.3)

The board aims to maintain a balance of executive and non-executive directors and, at the date of adoption of this statement, comprises the chairman, five executive directors and seven non-executive directors determined by the board to be independent. The directors have a wide and diverse range of business and other experience and expertise.

The Combined Code does not regard the chairman as being independent in view of his unique role in corporate governance although, were he not chairman, Sir Richard would satisfy the independence criteria laid down by the Combined Code. Taking into account the provisions of the Combined Code, the board has determined that all of the non-executive directors are independent and free from any business or other relationship which could compromise their independent judgement. In particular, the board has determined that Sir Peter Middleton remains independent, notwithstanding that he has served on the board for more than nine years. Andrew Pinder remains independent, notwithstanding that he receives additional remuneration as a non-executive director of Vertex. In making these determinations, the board took into

Table 34: Attendance by individual directors at meetings of the board and its committees

	Board		Audit		Nomination		Remuneration	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
John Roberts	17	16	n/a	n/a	3	3	n/a	n/a
Simon Batey	17	16	n/a	n/a	n/a	n/a	n/a	n/a
Charlie Cornish	17	16	n/a	n/a	n/a	n/a	n/a	n/a
Gordon Waters	17	14	n/a	n/a	n/a	n/a	n/a	n/a
Sir Richard Evans	17	17	n/a	n/a	3	3	n/a	n/a
Norman Broadhurst	17	13	7	7	3	3	6	6
David Jones	5	4	2	2	–	–	2	2
Sir Peter Middleton	17	15	7	6	3	2	6	4
Jane Newell	17	15	7	7	3	3	6	6
Andrew Pinder	17	16	7	5	3	2	6	6
John Seed	17	16	7	7	3	3	6	6

account their breadth of experience, their financial independence and their other business interests.

Sir Peter Middleton has been appointed as senior independent director. The senior independent director would be available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate. The full terms of reference for the senior independent director are available on the company's web site but include: the authority to call a meeting of the non-executive directors if, in his opinion, it is necessary; to lead a meeting of the non-executive directors without the chairman present at least annually to appraise the chairman's performance; and to attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of their issues and concerns.

Appointments to the board

"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board." (Combined Code principle A.4)

The board has constituted a nomination committee which meets at least once each year and otherwise as required. The committee considers and makes recommendations to the board on the composition, balance and membership of the board. The committee evaluates the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment. Its members are the non-executive directors, including the chairman (who is chairman of the committee, although the chairman will not chair the committee when the committee deals with the appointment of a successor to the chairmanship), together with the chief executive. As such, the majority of the members of the committee are independent non-executive directors. The nomination committee's terms of reference are available to shareholders on request and are also available on the company's web site. The committee met three times in the year to 31 March 2005.

The nomination committee leads the process for board appointments and makes recommendations to the board about filling vacancies on the board, appointing additional persons to the board and the re-election by shareholders of any director under the retirement by rotation provisions in the company's articles of association. During the year, the committee prepared a description of the roles and capabilities required for the appointment of a non-executive director, engaged the services of Whitehead Mann and made recommendations to the board as part of the final selection process which led to the appointment of David Jones and Nick Salmon as non-executive directors.

The letters of appointment of non-executive directors are made available on the company's web site. They set out the expected time commitment and non-executive directors undertake that they will have sufficient time to meet what is expected of them. Non-executive directors' other significant commitments are disclosed to the board before appointment, with the board being notified of any subsequent changes.

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 fees. However, the board's policy is that no full-time executive director should take on more than one non-executive directorship of a FTSE 100 company or the chairmanship of such a company. John Roberts is a non-executive director of Volex Group plc, for which he earned and retained a fee of £26,000 during the year to 31 March 2005 and Simon Batey is a non-executive director of Arriva plc, for which he earned and retained a fee of £32,458 during the year to 31 March 2005.

Information and professional development

"The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge." (Combined Code principle A.5)

The quality of the contribution that directors, particularly non-executives, can make is directly dependent upon the quality of the information they receive. Accordingly, all directors receive comprehensive information on a regular basis. Board papers are normally distributed five days in advance of the relevant meeting to allow sufficient time for directors to be fully briefed. The papers are sufficiently detailed to enable the directors to obtain a thorough grasp of the management and financial performance of the company and the operating businesses. Minutes of committee meetings are circulated to all board members.

The board has established a governance framework which encourages all directors to bring an independent judgement to bear on issues of strategy, performance and resources, including key appointments and standards of conduct. New directors receive appropriate induction on joining the board. As part of this, the company has offered major shareholders the opportunity to meet David Jones and Nick Salmon as new non-executive directors.

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary are a matter for the board as a whole.

The board has adopted a protocol under which directors have access, through the company secretary, to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Performance evaluation

"The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors." (Combined Code principle A.6)

During the year, the board conducted an evaluation of its own performance and that of its committees and individual directors.

The process involved the completion by each director of a confidential questionnaire. The questionnaire was modelled on the Chairmen's Guide to the Board Performance Review published by the Chairmen's Forum and was consistent with guidance published by the Chartered Institute of Secretaries and Administrators, and required each director to score the board's performance on 64 issues, such as contribution to strategy, risk management, financial and operational reporting, board committees, matters reserved for the board, communication, company and board advisers, relations with the group's regulators and board procedures and invited additional comments.

In addition, the members of the audit, group approvals, nomination, remuneration and treasury committees completed additional confidential questionnaires about the functioning of those committees, as did those managers and advisers who frequently deal with those committees. For example, in the case of the audit committee, the auditor and the group audit manager each completed confidential questionnaires about the audit committee.

The company secretary analysed the completed board and committee questionnaires and summarised the findings in a report for the chairman, which highlighted and prioritised the key areas of feedback. The chairman subsequently conducted one-to-one discussions with each of the board members based on the summary report, after which the chairman reported back to the whole board on the evaluation process and its key findings. The board developed a plan to make changes in a number of areas, including updating skills, succession planning and creating more time for discussions on strategic issues, which either have already been implemented or will be implemented during the course of the current financial year.

The responses to the questionnaires demonstrated a high degree of consistency and the evaluation process affirmed the board's confidence in the group's system of corporate governance.

Reappointment of directors

"All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board."
(Combined Code principle A.7)

The board initially appoints all new directors, on the recommendation of the nomination committee and following an appropriate recruitment process. Following the appointment of a new director, he or she is required to retire and seek reappointment at the next annual general meeting. The company's articles of association include provisions requiring one-third of all directors to retire and seek reappointment at each annual general meeting, and ensuring that no director serves for more than three years without retiring and being proposed for reappointment at an annual general meeting.

Biographical details of directors being submitted for reappointment are set out in the notes accompanying the relevant notice of meeting.

Non-executive directors are appointed for specified terms subject to reappointment under the company's articles of association and subject to Companies Acts' provisions relating to the removal of a director. The board explains to shareholders in the papers accompanying a resolution to reappoint a non-executive director why they believe that a non-executive director should be appointed. The chairman will confirm to shareholders when proposing reappointment that, following formal performance evaluation, that individual's performance continues to be effective and to demonstrate commitment to the role. Any term beyond six years for a non-executive director will be subject to particularly rigorous review, and will take into account the need for progressive refreshing of the board. Any non-executive director serving longer than nine years will be subject to annual reappointment.

Financial reporting

"The board should present a balanced and understandable assessment of the company's position and prospects."
(Combined Code principle C.1)

In presenting the annual and interim financial statements and similar significant publications, the directors aim to present a balanced and understandable assessment of the group's position and prospects. In particular, the board has recognised the fact that the UK government has introduced legislation concerning the contents of a company's operating and financial review, which will take effect in 2006, and has endeavoured to conform with the Accounting Standards Board's statement of best practice concerning such reporting in advance of the requirements becoming mandatory.

The considerable overlap between the new operating and financial review requirements and the format of the US annual report on Form 20-F has prompted the board to produce, for the first time, a single consolidated UK and US compliant annual report and 20-F which it hopes will provide a single source of information about the company. The board recognises that the majority of shareholders elect not to receive the full annual report and to receive in its place a summary financial statement. Accordingly, it has taken steps to ensure that such shareholders also receive a stakeholder report which summarises the most important features of the company's activity during the year.

The directors have adopted the going concern basis in preparing these financial statements. This is based upon a review of the group's budget for 2005/06, the five-year business plan and investment programme, together with the cash and committed borrowing facilities available to the group. The board also took into account potential contingent liabilities and other risk factors as interpreted by the 'Guidance on Going Concern and Financial Reporting for Directors of Listed Companies registered in the United Kingdom', published in November 1994.

As at 31 March 2005, an evaluation was carried out under the supervision, and with the participation of senior management, including the chief executive and group finance director, of the effectiveness of the design and operation of the company's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on, and as of the date of the company's evaluation, the chief executive and group finance director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that the company files and submits under UK and US legislation is recorded, processed, summarised and reported as and when required.

In addition, there has been no change in the company's internal controls or in other factors, during the period covered by this annual report, that has materially affected, or is reasonably likely to materially affect, the disclosure controls.

Statement of directors' responsibilities

In accordance with statutory requirements, the directors are responsible for preparing financial statements for each financial year which give a true and fair view of the company's and the group's state of affairs as at the end of the financial year, and of the profit or loss and cash flows for the financial year.

The directors consider that, in preparing the financial statements, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All applicable accounting standards have been followed, subject to any departure and explanation described in the notes to the consolidated financial statements.

The directors have a legal responsibility for ensuring that the company keeps accounting records which disclose, with reasonable accuracy at any time, the company's and the group's financial position and which enable them to ensure the financial statements comply with the Companies Act 1985. The directors also have a general legal responsibility for taking such steps as are reasonably open to them to safeguard the company's and the group's assets and to prevent and detect fraud and other irregularities. The external auditor's statement about its reporting responsibilities is set out on page 55.

Internal control

"The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets."
(Combined Code principle C.2)

The board is responsible for the group's system of internal controls and for reviewing its effectiveness. Throughout the year under review and up to the date of this report, the board has operated procedures meeting the requirements of the Combined Code relating to internal control as set out in the September 1999 guidance 'Internal Control Guidance for Directors on the Combined Code' published by the Institute of Chartered Accountants in England and Wales. Each year the board reviews all controls, including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

In addition, the board is making preparations for compliance with s404 of the US Sarbanes-Oxley Act of 2002. This includes ensuring that key financial controls are adequately documented and that they have been specifically tested.

The key features of the internal control system are:

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;

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- comprehensive business planning, risk assessment and financial reporting procedures; including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- a monthly board review of financial and non-financial key performance indicators to assess progress towards objectives;
- monthly meetings prior to each board meeting of the executive leadership team, a forum in which the executive directors, the managing directors of the group's businesses, the group functional directors and the company secretary exchange information and discuss strategic and operational issues which are of group-wide importance;
- regular monitoring of risks and control systems throughout the year by the operating businesses, supported by the use of risks and issues databases;
- a self-certification process, subject to internal audit, whereby the operating businesses are required to confirm that the system of internal control is operating effectively;
- an internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- a bi-monthly risk management forum chaired by the group finance director, and comprising the company secretary, the group audit manager, the group health and safety manager and senior representatives from each of the operating businesses, to scrutinise key risks;
- a quarterly sustainable development panel chaired by the chief executive, and comprising the managing directors of United Utilities North West and United Utilities Contract Solutions, the head of environment and the community and three external professional specialists: Walter Menzies, Clive Jeanes and Dr Mark Everard. The role of the panel is to advise on environmental policy and, in particular, to identify risks to the environment, recommend targets and monitor performance against those targets;
- an annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team;
- health and safety performance reviews carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried out within each of the operating businesses;
- centralised treasury operations operating within defined limits and subject to regular reporting requirements and internal audit reviews; and
- established procedures, set out in a group internal control manual, for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

The audit committee and the auditor

"The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors." (Combined Code principle C.3)

The audit committee's members are the non-executive directors who are determined in accordance with UK and US corporate governance rules to be independent. Norman Broadhurst is its chairman and the board is satisfied that he has recent and relevant financial experience as required by the Combined Code and is an audit committee financial expert as defined by Item 16A of Form 20-F. The committee met seven times in the year to 31 March 2005.

The committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor to the board, to put to shareholders for their approval in general meeting. It keeps under review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the auditor. The committee has established policies and procedures to pre-approve the provision of any audit or non-audit services and keeps the nature and extent of non-audit services under review, seeking to balance the maintenance of objectivity and value for money. It reviews the half-year and annual financial statements before submission to the board, reviews periodically the scope, remit and effectiveness of the internal audit function and the effectiveness of the group's internal control system. It also reviews annually arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The terms of reference of the audit committee are available to shareholders on request and are also available on the company's web site.

During the year, the board, on the recommendation of the audit committee, adopted a revised disclosure policy and have implemented a confidential voice mailbox for employees who want to report any concerns which they may have. The committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Audit and audit-related services are pre-approved annually by the audit committee. Audit-related services generally are highly correlated with the role of an independent auditor. Such services include assurance on non-statutory information, assurance work carried out in connection with reporting to a statutory regulator, analysis and interpretation of accounting principles and their application, support for debt issues and similar transactions, and other services that have a bearing on the group's financial statements on which the external auditor provides their opinion.

Non-audit services are allowed under the procurement of audit and non-audit services' policy and do not affect the independence of the external auditor, but do require the pre-approval of the audit committee prior to the engagement. Specific approval may be delegated to a designated member of the audit committee, with such approvals to be reported to the next audit committee meeting. In granting such approval, the designated member of the audit committee is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees. In the financial year 2004/05, all services were pre-approved by the audit committee and none was undertaken without such pre-approval pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

The group also maintains a list of prohibited services that cannot be provided by the group's auditors as they are considered by statute or, in the group's opinion, to be incompatible with the role of the independent auditor.

The fees paid or payable to the auditor in the year under review are set out in table 35.

Table 35: Fees to Deloitte & Touche LLP

	2005 £'000	2004 £'000
Audit fees	590.0	563.1
Audit related fees ⁽¹⁾	825.0	882.0
Tax fees ⁽²⁾	300.0	335.0
Total	1,715.0	1,780.1

Notes:

- (1) Audit-related fees are fees billed for work on regulatory returns and assurance work reasonably related to the statutory audit, including due diligence and assurance work, work associated with raising debt and equity finance and securities filing work.
- (2) Tax fees are fees incurred for tax compliance, tax advice and related tax work.
- (3) In addition to the above, fees relating to joint ventures of the group were paid to Deloitte & Touche LLP in 2005 totalling £15,000 (2004 – £66,800).

Dialogue with institutional shareholders

“There should be a dialogue with institutional shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.” (Combined Code principle D.1)

There is a programme of investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, the board met or offered to meet with 116 different funds, representing 43 per cent of the company’s issued ordinary share capital. This, together with regular announcements of significant events affecting the group and frequent updates on current trading, emphasises the board’s commitment to keeping the company’s equity and debt investors informed of developments affecting the group. The board regards this programme as important to improve investors’ awareness of the business and for the board to gain an understanding of investors’ priorities.

The board has taken steps to ensure that members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about their company through an annual survey of shareholder opinion produced for the company by Makinson Cowell. Non-executive directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders.

Constructive use of the annual general meeting

“The board should use the annual general meeting to communicate with investors and to encourage their participation.” (Combined Code principle D.2)

The board encourages shareholders to exercise their right to vote at the annual general meeting. The notice calling the meeting and related papers are sent to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each substantially separate issue.

At annual general meetings, voting on all resolutions takes place by means of a poll which ensures that all shareholders’ votes are taken into account, whether lodged in person at the meeting or by proxy. The poll vote is scrutinised by Lloyds TSB Registrars.

Presentations are made on the progress and performance of the business prior to the formal business of the meeting.

Shareholders are encouraged to participate through a question and answer session in which individual directors or, where appropriate, the chairman of the relevant committee, respond to those questions directly. Normally, the chairmen of the audit, nomination and remuneration committees will be available at the annual general meeting to answer questions relevant to the work of those committees. All directors normally attend the annual general meeting.

The interim report, the annual report, the stakeholder report and summary financial statement remain the primary means the board has of communicating during the year with all of the company’s shareholders. However, the board recognises the importance of the internet as a means of communicating widely, quickly and cost-effectively. A library of information about the company is available

24 hours a day, worldwide, at www.unitedutilities.com. Financial news releases are made available on the site contemporaneously with release through other news channels and anyone with an email address can register free of charge to receive an email alert upon the posting of each new release.

DIFFERENCES IN UK/NYSE CORPORATE GOVERNANCE PRACTICES

Under the New York Stock Exchange (‘NYSE’) corporate governance rules for listed companies, as a NYSE-listed foreign private issuer, United Utilities PLC must disclose any significant ways in which its corporate governance practices differ from those followed by US companies under NYSE listing standards. United Utilities PLC believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies.

US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. The Listing Rules of the UK Financial Services Authority require each listed company, incorporated in the United Kingdom, to include in its annual report and accounts a narrative statement of how it has applied the principles of the Combined Code and a statement as to whether or not it has complied with the best practice provisions of the Combined Code throughout the accounting period covered by the annual report and accounts. A company that has not complied with the Combined Code provisions, or complied with only some of the Combined Code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period covered by the report, must specify the Combined Code provisions with which it has not complied, and, where relevant, for what part of the reporting period such non-compliance continued, and give reasons for any non-compliance. United Utilities PLC has complied throughout its 2004/05 financial year with the best practice provisions of the Combined Code. The Combined Code does not require United Utilities PLC to disclose the full range of corporate governance guidelines with which it complies.

Under NYSE standards, companies are required to have a nominating/corporate governance committee, composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. The United Utilities’ nomination committee, which follows the requirements of the Combined Code, includes seven members who are independent under Combined Code rules (six being deemed independent under NYSE rules), together with the non-executive chairman and the chief executive. The committee’s terms of reference do not require the committee to develop and recommend corporate governance principles for United Utilities PLC.

Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. During the 2004/05 financial year, United Utilities’ non-executive directors met once as a group with the non-executive chairman, but with no executive directors present and once as a group without the chairman or the executive directors present.

In accordance with the requirements of the Combined Code, United Utilities reports on how its committees and its directors are evaluated and on the results of such evaluations and it provides extensive information regarding directors’ compensation in the directors’ remuneration report on pages 37 to 48. The terms of reference of United Utilities’ audit, nomination and remuneration committees are available on the company’s web site.

NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and to disclose promptly any waivers of the code for directors or executive officers. The group has adopted a set of business principles, which applies to the employees of all United Utilities companies, including the chief executive, the group finance director and the group financial controller which comply with the NYSE requirements. United Utilities’ Business Principles are available on the company’s web site.

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Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

The NYSE rules include detailed tests for determining director independence while the Combined Code, which is followed by United Utilities, prescribes a more general standard for determining director independence. Currently, six of United Utilities' directors satisfy the tests for independence set out in the NYSE rules.

The Combined Code requires a company's board to assess director independence by affirmatively concluding that the director is independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgement.

Finally, a chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE listing rules applicable to foreign private issuers, United Utilities' chief executive is not required to provide the NYSE with this annual compliance certification. However, in accordance with rules applicable to both US companies and foreign private issuers, the chief executive will be required to notify the NYSE promptly in writing if any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards applicable to United Utilities.