Principal activities

The company is the holding company of a group which manages and operates electricity distribution, water and wastewater assets and also manages infrastructure and business processes for its own and other businesses.

A fuller description of business activities is contained within the operating and financial review on pages 4 to 15. The principal subsidiary undertakings and joint ventures of the company are shown in note 13 to the consolidated financial statements.

Business review

The chairman's and chief executive's reviews on pages 2 and 3 and the operating and financial review on pages 4 to 34 report on the group's activities during the year and on likely future developments. A summary of key performance indicators can be found on the inside cover. The directors, in preparing the operating and financial review, have not sought to comply with the ASB's 2006 Reporting Statement on operating and financial reviews.

The dividend for shareholders

The directors are recommending a final dividend of 29.58 pence for each ordinary share for the year ended 31 March 2006, making a total for the year of 43.87 pence for each ordinary share. Subject to shareholders approving this recommendation at the annual general meeting, the dividend will be paid on 25 August 2006 to shareholders on the register at the close of business on 30 June 2006.

The business for the annual general meeting

Details of the resolutions to be proposed at the 2006 annual general meeting are set out in the notice calling the meeting. There is also a full explanation of the resolutions in the leaflet containing the notice, enclosed with this report.

Employees

The company's policies on employment of disabled persons and on employee involvement are contained within the operating and financial review on pages 13 and 14. The policy to encourage employee involvement through provision of share schemes is discussed within the directors' remuneration report on page 41.

Directors and senior management

The names of the present directors and their biographical details are given on pages 35 to 37, together with details of the senior managers who, with the executive directors, form part of the executive leadership team but are not board members. The following also served during the period:

- John Roberts – retired from the board as the chief executive officer on 31 March 2006;
- John Seed – retired from the board as a non-executive director on 29 July 2005;
- Hugh Logan – a member of the executive leadership team transferred to THUS Group plc on 26 February 2006; and
- Ian Priestner – a member of the executive leadership team left the company on 30 April 2006.

Directors' and senior managers' interests in shares

The directors and their immediate families had the following interests in shares as at 31 March 2006 and as at 31 May 2006, all of which were beneficial interests, in the company's ordinary shares and options to subscribe for shares. None of the directors or senior managers hold more than one per cent of the ordinary share capital of the company. Except as described below, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.

1. Interests in ordinary shares

As at 31 May 2006, the directors and senior managers (15 persons) of United Utilities held a total of 393,341 ordinary shares in the company, representing 0.04 per cent of the issued ordinary share capital. The individual interests of the directors in ordinary shares are shown in table 14.

Table 14:

	At 1 April 2005 or date of appointment if later*		**At 31 March 2006**	At 31 May 2006
	A shares	Ordinary	**Ordinary**	Ordinary
Philip Green*	n/a	100,000	**100,000**	100,289
John Roberts	40,222	110,199	**191,219**	n/a
Simon Batey	44,127	82,401	**126,802**	126,848
Charlie Cornish	–	46	**321**	367
Tom Drury*	5,323	20,123	**22,426**	22,426
Gordon Waters	7,253	44,276	**73,380**	73,426
Sir Richard Evans	136	245	**381**	381
Norman Broadhurst	189	341	**530**	530
David Jones	–	–	**–**	–
Paul Heiden*	n/a	–	**1,852**	1,852
Sir Peter Middleton	2,541	4,574	**7,115**	7,115
Jane Newell	2,419	4,356	**6,775**	6,775
Andrew Pinder	2,222	4,000	**6,222**	6,222
Nick Salmon*	–	–	**–**	–

Notes:

- The amounts held at 31 March 2006 include those shares purchased by way of the second stage of the two-stage rights issue of one further A share for each A share held on 2 June 2005 at 165p per further A share. On 6 July 2005 all the A shares were converted into ordinary shares at a rate of two for one.
- Each executive director is a member of the class of discretionary beneficiaries of the United Utilities Employee Share Trust and is therefore treated as having an interest in the 52,500 ordinary shares held by United Utilities Employee Share Trust Limited as trustee of the United Utilities Employee Share Trust at 31 March 2006. As at 31 May 2006, United Utilities Employee Share Trust Limited continued to hold 52,500 ordinary shares.
- Tom Drury was appointed as a director on 9 May 2005.
- Nick Salmon was appointed as a director on 4 April 2005.
- John Seed retired as a non-executive director on 29 July 2005.
- Paul Heiden was appointed as a non-executive director on 5 October 2005.
- John Roberts retired as the chief executive officer and as a director on 31 March 2006.
- Philip Green was appointed as a director on 20 February 2005 and as the chief executive officer on 31 March 2006.
- Provided Philip Green maintains his shareholding of 100,000 shares and remains in employment with the company throughout the next five years, United Utilities has agreed to match this investment on a one-for-one basis, thereby aligning his interests with those of the company's other shareholders. These matched shares, together with additional shares from notional reinvestment of dividends, will transfer to Mr Green at the end of the five-year period, after the conclusion of the next regulatory reviews.

2. Interests in share options

As at 31 May 2006, the directors and senior managers (15 persons) of United Utilities held options to purchase 7,983 ordinary shares in the company, representing 0.001 per cent of the issued ordinary share capital, all of which were issued pursuant to the United Utilities all-employee ShareSave scheme, the company share option scheme 1999 or its forerunner, the executive share option scheme. The individual interests of the directors in share options are shown in table 15.

Table 15:

	At 1 April 2005 or date of appointment if later*	**At 31 March 2006**	At 31 May 2006
Philip Green*	–	**–**	–
John Roberts	–	**–**	n/a
Simon Batey	1,751	**1,751**	1,751
Charlie Cornish	–	**–**	–
Tom Drury*	3,772	**–**	–
Gordon Waters	3,030	**2,648**	2,648

Notes:

- Non-executive directors do not participate in the company's share option plans.
- Tom Drury was appointed as a director on 9 May 2005.
- John Roberts retired as the chief executive officer and as a director on 31 March 2006.
- Philip Green was appointed as a director on 20 February 2005 and as the chief executive officer on 31 March 2006.

Purchase of own shares

At the annual general meeting held on 29 July 2005, the company was authorised by the shareholders to purchase, in the market, up to 87,128,296 of its own ordinary shares of £1 each. No shares were purchased pursuant to this authority during the year. This authority is normally renewable annually and approval will be sought from shareholders at the 2006 annual general meeting to renew the authority for one year.

Fulfilling social and environmental responsibilities

As described in the corporate responsibility review on page 30, the group seeks to manage its total impact on society as a responsible corporate citizen. Full details are set out in the company's separate stakeholder report, which is an important part of the company's integrated approach to reporting on the group's overall performance, together with the annual report and the website.

Political and charitable donations

Charitable donations by the group in the year amounted to £1,324,308 (2005: £1,312,774). The group's policy is not to make any donations for political purposes. However, the Political Parties, Elections and Referendums Act 2000 requires certain types of expenditure on political events to be pre-approved by shareholders. At the 2005 annual general meeting an authority was taken to cover such expenditure. Pursuant to that authority, in the year, the company incurred costs of £22,499 (2005: £12,845) as part of the process of talking to government at all levels. Resolutions to renew this authority for the company and its principal subsidiaries will be put to the 2008 annual general meeting.

Approach to technology development

The group is committed to using innovative, cost-effective and practical solutions for providing high quality services. It also continues to make full use of the wide-ranging expertise, abilities and facilities within the group. It recognises the importance of ensuring that it properly focuses its investment in the development of technology, that it has the right skills to apply technology to achieve sustainable competitive advantage and that it continues to be alert to emerging technological opportunities.

Substantial shareholders and related party transactions

The company is not directly or indirectly owned or controlled by another corporation or by an individual or government and there are no arrangements the operation of which may, at a subsequent date, result in a change in control of the company. At 31 May 2006, the directors were aware of the following notifiable beneficial interests of greater than three per cent in the company's issued ordinary share capital:

Table 16:

Company	Date notified	No. of shares	%
Legal and General Group plc	08/07/2005	29,538,448	3.38
Prudential plc	06/03/2006	26,707,289	3.05
Spucegrove Investment Management Ltd	13/07/2005	30,877,098	3.54

Holders of all ordinary shares, including those held through ADSs, have the same voting rights.

As of 12 May 2006, there were 72 registered holders of 39,423,997 United Utilities PLC ADSs (representing 78,847,994 ordinary shares) with an address in the US, constituting nine per cent of the ordinary shares in issue at that date. In addition, at 12 May 2006, there were 127 registered holders of 53,761 ordinary shares with addresses in the US, constituting less than one per cent of the ordinary shares in issue at that date.

Other than with respect to employment agreements and compensation arrangements, there is no material indebtedness owed to, or by, and there have been no material transactions between, the company and management during the company's three most recent financial years, nor are there presently proposed to be any such indebtedness or any material transactions, or any transactions that are unusual in their nature or conditions to which the company or any of its subsidiaries was or is a party and in which any director or executive officer, or five per cent shareholder, or any relative or spouse thereof or any associate of the company or any enterprise that directly or indirectly controls, is controlled by or is under common control with the company, had or is to have a direct or indirect material interest.

For details of related party transactions see note 28 to the consolidated financial statements on page 102.

Creditor payment policy and practice

The group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. The group and the company had 45 days (2005: 54 days) and 37 days (2005: 34 days) respectively of purchases outstanding at the end of the financial year.

Indemnities

Throughout the year and as at the date of this report, the articles of association contained provisions for the benefit of directors, officers and employees of the group and its subsidiary and associated companies indemnifying them out of the assets of the company to the full extent allowed by law against liabilities incurred by them in the course of carrying out their duties.

Directors' and officers' insurance

The company maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act.

Financial instruments

The risk management objectives and policies of the company can be found in note 18 to the financial statements on page 90.

Information given to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent auditors

The board is proposing to reappoint Deloitte & Touche LLP as auditors at the forthcoming annual general meeting.

Approved by the board on 31 May 2006 and signed on its behalf by

Tim Rayner
Secretary

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 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 27 to the accounts.

Aggregate remuneration

During the year, the aggregate amounts of remuneration paid to all directors and members of the executive leadership team was £10,105,868 (2005: £8,181,178). This includes executives' salaries, annual bonuses earned and accrued in the year to 31 March 2006 but paid after the year end, the value of long-term incentives earned for the period ended 31 March 2005 and paid during the year and benefits in kind. To fully comply with the 20-F reporting requirements, the 2006 figure includes the total amounts set aside or accrued by the company or its subsidiaries in 2005/06, including the value of contributions to pension schemes, to provide pension, retirement or similar benefits. To ensure an appropriate comparison, the figure for 2005 has also been adjusted to take account of pensions benefits.

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 (to 31 March 2006), Philip Green (from 20 February 2006), 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.

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 and on the company's website at www.unitedutilities.com. They set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them.

Table 17: 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	2005	2006	none	none
Norman Broadhurst	01.04.1999	2005	2008	none	none
Paul Heiden	05.10.2005	n/a	2006	none	none
David Jones	03.01.2005	2005	2008	none	none
Jane Newell	01.09.1996	2003	2006	none	none
Andrew Pinder	01.09.2001	2005	2008	none	none
Nick Salmon	04.04.2005	2005	2008	none	none
John Seed	01.03.1996	2002	n/a	none	none

Note:

- John Seed resigned from the board at the AGM on 29 July 2005.

Policy statement on non-executive directors' remuneration

The company's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed each year when account is taken of the level of fees paid in companies of similar size and complexity. There are separate annual fees for the chairman, deputy chairman and the other non-executive directors. Additional fees are paid to the chairmen of the audit committee (Norman Broadhurst) and remuneration committee (John Seed to 29 July 2005 and David Jones from 29 July 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 or employee share schemes. The company repays the reasonable expenses they incur in carrying out their duties as directors.

Non-executive directors' remuneration

Non-executive directors' fees were increased on 1 September 2005. The base fee is £47,250 a year. The annual fee paid to Sir Peter Middleton, deputy chairman, is £84,000. The additional fees paid to the chairmen of the audit and remuneration committees are £10,000 and £7,500 a year respectively. The chairman's fee increased to £210,000 a year. The next review of non-executive directors' fees will be in September 2006. Non-executive directors' remuneration for the year to 31 March 2006 is set out in table 18.

Table 18: Non-executive directors' fees (audited information)

	Total fees	
	2006 £'000	2005 £'000
Sir Richard Evans	**205.0**	193.5
Norman Broadhurst	**56.3**	53.8
Paul Heiden	**23.1**	–
David Jones	**51.4**	11.0
Sir Peter Middleton	**82.3**	78.3
Jane Newell	**46.3**	73.3
Andrew Pinder	**93.8**	89.2
Nick Salmon	**45.9**	–
John Seed	**17.2**	51.5
Total	**621.3**	550.6

Notes:

- David Jones was appointed to the board on 3 January 2005.
- Nick Salmon was appointed to the board on 4 April 2005. His yearly fee is £47,250.
- Paul Heiden was appointed to the board on 5 October 2005. His yearly fee is £47,250.
- John Seed resigned from the board on 29 July 2005.
- Between August 2004 and March 2006, Andrew Pinder received additional fees in his capacity as a non-executive director of Vertex Data Science Limited. During the year, fees of £47,500 became due (2005: £45,000). These are included in the figures above. He resigned as a director of Vertex Data Science Limited on 31 March 2006.
- Jane Newell's fee for 2005 includes an additional amount of £30,000 paid to her in her capacity as chairman of the company's pension schemes' trustee until 31 March 2005.

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 David Jones (Chairman from 29 July 2005), Norman Broadhurst, Paul Heiden (from 5 October 2005), Sir Peter Middleton, Jane Newell, Andrew Pinder and Nick Salmon (from 4 April 2005). All are non-executive directors determined by the board to be independent in accordance with the Combined Code. The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross-directorships and are not involved in the day-to-day running of the group's businesses. John Seed was a member and chairman of the committee until 29 July 2005. The committee's terms of reference are available to shareholders on request and are on the company's website at www.unitedutilities.com.

The committee has retained New Bridge Street Consultants LLP to advise it on executive remuneration. They also advise the company on the remuneration of a limited number of senior executive managers whose specific terms do not fall within the remit of the remuneration committee. This is to ensure consistency in the application of the board's policies on executive remuneration and the general terms of employment approved by the remuneration committee. Mercer Human Resource Consulting advise the committee on pensions matters. They are also the actuaries to one of the company's pension schemes (United Utilities Pension Scheme) and advise the company on matters relating to its operation. Eversheds LLP provide legal advice on the operation of the group's share incentive and share option plans, including drafting the rules and advising on their interpretation and may advise on individual termination arrangements. They also provide general legal advice to the group.

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

The committee considers fully the principles of good governance and the code of best practice. It met six times in the year to 31 March 2006. Individual attendance at the meetings is stated in the corporate governance report on page 57.

During the year, matters considered by the committee included:

- the 2005 salary review for executive directors and other senior executives;

- awards payable under the 2004/05 annual bonus plan and the measures and targets for the 2005/06 plan;
- the size of and performance conditions to apply to the 2005/06 grant of awards under the performance share plan and international plan, adjustments to awards granted under the 2003/04 and 2004/05 plans consequent upon the second stage of the group's rights issue, monitoring ongoing performance against the conditions applying to previous grants, eligibility for future awards and the vesting of the 2002/03 awards;
- the implications of tax simplification legislation on pension policy and provision for executives;
- monitoring of executive shareholdings against target;
- the terms of appointment for the new chief executive officer and the new chief financial officer; and
- the form and content of the remuneration report in light of developments in stakeholder views and evolving best practice on disclosure.

The committee also reviewed the incentive arrangements for executive directors and members of the executive leadership team. Details of revised annual bonus arrangements and proposed changes to the long-term incentive plans (the performance share plan and its equivalent for overseas based executives, the international plan) are given later in this report. The changes to these plans are subject to shareholder approval at the annual general meeting on 28 July 2006. It is also proposed to introduce a matching share plan for executive directors and members of the executive leadership team in 2007. During 2006/07, the committee will consult institutional investors regarding the plan, including the performance conditions. It is proposed that the rules of the proposed matching share plan will be submitted for shareholder approval at the annual general meeting in 2007.

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

In deciding the executive directors' total remuneration package and individual elements of it, the remuneration committee assesses 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.

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

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

During 2005/06, the committee reviewed the operation of the group's incentive arrangements in the light of evolving market practice and to ensure that rewards remained competitive and aligned to shareholder interests. It considered that changes were needed to annual and long-term incentives to make a greater proportion of the reward package performance-related bringing it more in line with market practice to facilitate the recruitment and retention of key executives. With effect from 2006/07 the annual bonus maximum for executive directors will be 75 per cent of salary (increased from 60 per cent).

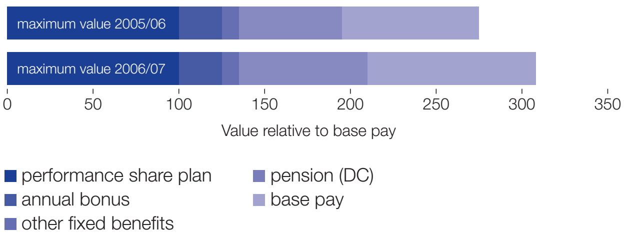
Changes are proposed to the operation of the performance share plan and the international plan. The main changes relate to a proposed reduction in the percentage of the maximum award vesting at median performance from 33 per cent to 25 per cent and the introduction of notional dividend reinvestment on the number of shares comprising awards. The opportunity has also been taken to make minor changes in the rules to aid administration of the plans.

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. Information on and a resolution seeking shareholder approval to revisions to the rules of the plans are included in the shareholders' circular and notice for this year's annual general meeting. The plans' rules will be available for inspection by shareholders.

The group operates a defined contribution pension scheme which newly appointed directors (and senior executives) can join. A number of directors and executives are members of the defined benefit section of the pension scheme which is now closed to new entrants. Amendments have been made to pension policy and the operation of existing arrangements resulting from consideration of tax simplification legislation. These are detailed later in the report.

Chart 1 sets out the forward policy for an executive director's annual total reward. It shows both the current and revised/proposed arrangements, effective from 2006/07, assuming shareholder approval is obtained where necessary. It is expressed in terms of the maximum reward opportunity. The impact of the changes from 2006/07 will increase the proportion of the maximum reward opportunity that is "at risk" from about 50 per cent to 56 per cent.

Chart 1: Executive directors' annual total reward



Notes:

- The figures represent the value of each element of the reward package relative to base pay.
- Pension refers to the defined contribution scheme with a company contribution of 25 per cent of basic pay.
- The maximum values apply only where maximum annual bonus is achieved and the performance share plan has paid out fully.
- The revised value for the performance share plan assumes a dividend reinvestment value of seven per cent a year for each of the three years of the performance period.

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

Executive directors' remuneration 2005/06

Executive directors' emoluments and the value of the long-term incentive vesting during 2005/06 are set out in table 19.

A – Salary

The remuneration committee reviews salaries each year taking account of group and personal performance. It commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity and takes account of the levels of pay awards elsewhere in the group. In this way it aims to establish whether 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.

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

Table 20: Executive directors' salaries

	31 March 2006 £'000	31 March 2005 £'000	Date of change
John Roberts	**540.0**	504.0	1 Sept 05
Philip Green	**675.0**	–	13 Feb 06
Simon Batey	**371.0**	346.5	1 Sept 05
Charlie Cornish	**290.0**	250.0	1 Sept 05
Tom Drury	**310.0**	285.0	9 May 05
Gordon Waters	**315.0**	294.0	1 Sept 05

Notes:

- Philip Green was appointed to the board on 20 February 2006.
- Tom Drury was appointed to the board on 9 May 2005.

Table 19: Executive directors' emoluments and long-term incentive payments (audited information)

	Gross salary		Annual bonus		Other benefits		Total emoluments		Long-term incentive vesting during the year ended 31 March	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
John Roberts	**525.0**	494.0	**229.7**	281.6	**36.8**	38.4	**791.5**	814.0	**465.1**	200.8
Philip Green	**74.3**	–	**–**	–	**2.4**	–	**76.7**	–	**–**	–
Simon Batey	**360.8**	339.6	**179.5**	193.6	**18.4**	18.6	**558.7**	551.8	**310.1**	163.3
Charlie Cornish	**273.3**	243.7	**142.0**	138.9	**25.4**	107.7	**440.7**	490.3	**–**	–
Tom Drury	**277.5**	–	**103.9**	–	**14.5**	–	**395.9**	–	**–**	–
Gordon Waters	**306.3**	288.2	**143.5**	164.3	**28.8**	28.5	**478.6**	481.0	**237.7**	114.9
Total	**1,817.2**	1,365.5	**798.6**	778.4	**126.3**	193.2	**2,742.1**	2,337.1	**1,012.9**	479.0

Notes:

- Philip Green was appointed to the board on 20 February 2006.
- Tom Drury was appointed to the board on 9 May 2005.
- The value of the long-term incentive vesting during the year ended 31 March 2006 is based on the share price when the awards under the 2002/03 performance share plan were exercised. The awards relate to the three-year performance period which ended on 31 March 2005.
- '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's other benefits during the year ended 31 March 2005 included a non-pensionable salary supplement of £18,500 a year to compensate him for lost pension benefits from his previous employment and relocation costs of £72,458. The salary supplement ceased on 31 August 2005 when the company contribution to his defined contribution pension scheme was increased to 25 per cent of basic salary.
- In addition to the amounts shown in the table, Tom Drury received a cash payment of £905,200 relating to an award granted in 2000 under a special incentive scheme in Vertex Data Science Limited which vested during the year ended 31 March 2006. This award was in substitution for grants under the group's long-term incentive plans between 1999/2000 and 2003/04 inclusive and covered a period prior to his appointment to the board.
- The 'other benefits' and 'total emoluments' for Gordon Waters for 2005 include an adjustment of £15,200 from the figures reported last year.

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. 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) 2006/07

The remuneration committee has decided that, for the 2006/07 annual bonus plan, the maximum bonus will be 75 per cent of salary for executive directors and 60 per cent for other members of the executive leadership team. For executive directors, financial measures will account for bonus payments worth up to 50 per cent of salary. The financial measures will be group profit before exceptional items, interest and tax (PBEIT) and profit before exceptional items and tax (PBET) (weighted equally) and the major businesses' PBEIT and PBET (weighted equally). The allocation of bonus to these measures varies by director and is indicated in table 21.

For the financial measures, 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 third of the executive directors' annual bonus, accounting for 25 per cent of salary, will depend on performance in other areas of the group's activities and the achievement of individual objectives. Individual objectives account for 15 per cent bonus. 5 per cent bonus will be payable for achieving customer service targets. Performance in the Business in the Community's (BitC) Corporate Responsibility Index (CRI), an authoritative and broad external benchmark of responsible business practice in relation to the environment and society, will account for 2.5 per cent for achieving a target of 96 per cent for the group's score. A further 2.5 per cent per cent is allocated for achieving improvements in employee satisfaction measured by responses to questions in an externally conducted and verified employee opinion survey.

The executive directors' annual bonus plan for 2006/07 is summarised in table 21.

(b) 2005/06

The financial measures to determine annual bonuses for 2005/06 were group PBEIT and PBET. The maximum bonus opportunity allocated to each of these targets was 24 per cent for the chief executive and finance director and 18 per cent for business managing directors who also had financial targets based on their own business' PBEIT and PBET performance, each accounting for 6 per cent bonus. 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 BitC CRI, three per cent on scores in the 2005/06 employee opinion survey and six per cent on the achievement of individual objectives.

Table 21: Executive directors' annual bonus plan measures 2006/07

	Financial maximum award				Non-financial maximum award				
	Group financials %	UUNW financials %	UUCS financials %	Vertex financials %	Customer service %	Corporate responsibility %	Employee satisfaction %	Personal objectives %	Total %
Philip Green	35	–	7.5	7.5	5	2.5	2.5	15	75
Simon Batey/Tim Weller	35	–	7.5	7.5	5	2.5	2.5	15	75
Charlie Cornish	10	25	7.5	7.5	5	2.5	2.5	15	75
Tom Drury	10	7.5	7.5	25	5	2.5	2.5	15	75
Gordon Waters	10	7.5	25	7.5	5	2.5	2.5	15	75

Notes:

- UUNW = United Utilities North West.
- UUCS = United Utilities Contract Solutions.
- Figures are percentage of salary.
- The structure for other executives will follow that for the chief executive officer and chief financial officer except their maximum bonus will be 60 per cent of salary. Financial targets will account for 35 per cent bonus.

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

	Financial award				Non-financial award							
	Group financials		Business financials		Corporate responsibility performance		Employee satisfaction		Personal objectives		Total	
	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual	Max.	Actual
John Roberts	48	39.25	–	–	3	3	3	1.5	6	0	60	43.75
Simon Batey	48	39.25	–	–	3	3	3	1.5	6	6	60	49.75
Charlie Cornish	36	29.44	12	12	3	3	3	1.5	6	6	60	51.94
Tom Drury	36	29.44	12	0	3	3	3	1.5	6	3.5	60	37.44
Gordon Waters	36	29.44	12	9.93	3	3	3	1.5	6	3	60	46.87

Note:

- Figures are percentage of salary.

The outcome of the 2005/06 annual bonus plan for executive directors is shown in table 22. The group PBET stretch target was achieved. The PBEIT stretch target was not achieved. This resulted in 81.77 per cent of the bonus relating to group financial performance being payable. The corporate responsibility target of 94 per cent was achieved (performance = 95.5 per cent). One of the employee-related targets (based on the results of the employee opinion survey) was achieved resulting in 1.5 per cent bonus being payable. The extent to which each director achieved their individual personal objectives is shown in table 22.

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, are reimbursed the cost of fuel for business and private use, and are provided with medical and life insurance and, if not a member of the defined benefit pension scheme, permanent health insurance.

D – Long-term incentives

Executive directors and other senior executives participate in the performance share plan. Awards are granted at the discretion of the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the remuneration committee. Each year, participants may be awarded a right to acquire a maximum number of shares (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: the company's total shareholder return (TSR) performance when compared with the TSR performance of a group of other companies; and 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 reviews and 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 to maintain the integrity of the plan, for example, following a takeover bid or activity or merger/demerger announcement. During the year, the remuneration committee considered the treatment of changes affecting companies in the comparator groups for awards made in 2003/04 and 2004/05.

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. (It is proposed that with effect from the 2006/07 awards, the proportion vesting at median will be reduced to 25 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 takes account of the impact of the transition to International Financial Reporting Standards when assessing underlying business performance against the performance measures.

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

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

Participants normally have three months from the date the award vests in which to exercise their right to acquire the number of shares that have vested. Awards are normally satisfied by the transfer of shares from the trustee to participants. The trustee may periodically buy shares in the market to ensure that it can satisfy its liabilities when an award vests. These purchases are normally financed by the company making a loan to the trustee. The company takes account of the vesting timetable and likely scale of vesting in determining the financial assistance it provides for the trustee. The company reviews this arrangement from time to time to ensure its cost-effectiveness. Awards may also be satisfied by allotting shares. Details of the number of shares held by the trust at 31 May 2006 are given in the notes to table 14 on page 38.

(a) 2006/07 grant

The proposed 2006/07 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 the TSR comparator group will comprise the following 16 companies in addition to United Utilities: AMEC, AWG, Balfour Beatty, BG Group, British Energy, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, Scottish Power, Severn Trent and Viridian. The performance period will be 1 April 2006 to 31 March 2009. 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, based on 25 per cent of the award vesting at median and 100 per cent for upper quartile performance, is set out in table 23.

Table 23: 2006/07 grant proposed vesting scale

		2006/07 plan
Comparator group size (No. of companies)		17
Ranking	% of max award vesting	% of salary
1 to 4	100	80
5	92	73.6
6	75	60
7	58	46.4
8	42	33.6
9	25	20
10 or below	0	0

Note:

- Subject to shareholder approval at the annual general meeting, it is proposed that the maximum number of shares in awards will be enhanced by the notional reinvestment of dividends.

(b) 2005/06 grant

During the year, option awards to a maximum value of 80 per cent of annual salary were made to directors in respect of the 2005/06 performance share plan The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2005 to 31 March 2008. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, BAA, Balfour Beatty, BG Group, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, Scottish Power, Severn Trent and Viridian. 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.

(c) 2004/05 grant

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. During the year, as a result of takeover bids for East Surrey Holdings and International Energy Group, it was decided to retain the notional 17th company in the comparator group and United Utilities' TSR performance relative to it compared from the beginning of the performance period until the day before the first takeover bid was announced. 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.

(d) 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. British Energy delisted during 2004/05. It has been retained in the comparator group and United Utilities' TSR Performance relative to it 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.

The vesting scales for the three plans in operation at 31 March 2006 are set out in table 24.

Table 24: Performance share plan vesting scales

	2003/04 plan		2004/05 plan		2005/06 plan	
Comparator group size (No. of companies)		16		18		17
Ranking in comparator group	% 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	88	70.4	97	77.6	93	74.4
6	72	57.6	82	65.6	78	62.4
7	57	45.6	68	54.4	63	50.4
8	41	32.8	54	43.2	48	38.4
9	0	0	40	32	33	26.4
10 or below	0	0	0	0	0	0

The TSR performance at 31 March 2006 for each of the current plans is set out in table 25. The performance period for the 2003/04 plan ended on 31 March 2006. The percentage vesting shown in the table indicates the proportion of the maximum award which will vest during 2006/07 if the TSR performance is considered to be consistent with underlying financial performance. The performance periods for the 2004/05 and 2005/06 plans do not end until 31 March 2007 and 31 March 2008 respectively. The percentage vesting for those plans shown in the table 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 25: Performance share plan TSR performance

	2003/04 plan			2004/05 plan			2005/06 plan		
Performance period			1.4.03 to 31.3.06			1.4.04 to 31.3.07			1.4.05 to 31.3.08
Comparator group size (No. of companies)			16			18			17
Date	Period TSR %	Ranking	% vesting	Period TSR %	Ranking	% vesting	Period TSR %	Ranking	% vesting
31.3.06	66.5	8	41	68.0	12	0	17.7	16	0

Note:

- Period TSR is the cumulative total shareholder return from the beginning of the respective performance period until 31 March 2006.

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 details	Contingent scheme interest at 1 April 2005		Contingent scheme interest awarded during the year		**Contingent scheme interest at 31 March 2006**	
				Maximum value at award date									
		Award date	Performance period	% of salary	£'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Value £'000	Max. no. of shares	Value £'000	**Max. no. of shares**	**Value £'000**
John Roberts													
2003/04	Ordinary	29.9.03	1.4.03 to 31.3.06	80	360.0	469.0	57,843	57,843	366.7	24,039	n/a	**81,882**	**564.6**
	A shares					276.0	32,135	32,135	145.6	(32,135)	n/a	**–**	**–**
2004/05	Ordinary	18.8.04	1.4.04 to 31.3.07	80	384.0	527.0	51,885	51,885	328.9	21,562	n/a	**73,447**	**506.4**
	A shares					341.25	28,825	28,825	130.6	(28,825)	n/a	**–**	**–**
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	403.2	657.5	61,324	–	–	61,324	403.2	**61,324**	**422.8**
Total					1,147.2				971.8	106,925	403.2	**216,653**	**1,493.8**
Philip Green													
2005/06	Ordinary	13.2.06	1.4.05 to 31.3.08	80	540.0	688.5	78,432	–	–	78,432	540.0	**78,432**	**540.0**
Total					540.0		78,432	–	–	78,432	540.0	**78,432**	**540.0**
Simon Batey													
2003/04	Ordinary	29.9.03	1.4.03 to 31.3.06	80	240.0	469.0	38,556	38,556	244.4	16,023	n/a	**54,579**	**376.3**
	A shares					276.0	21,420	21,420	97.0	(21,420)	n/a	**–**	**–**
2004/05	Ordinary	30.6.04	1.4.04 to 31.3.07	80	264.0	547.0	35,658	35,658	226.1	14,819	n/a	**50,477**	**348.0**
	A shares					347.75	19,810	19,810	89.7	(19,810)	n/a	**–**	**–**
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	277.2	657.5	42,160	–	–	42,160	277.2	**42,160**	**290.7**
Total					781.2				657.2	73,002	277.2	**147,216**	**1,015.0**
Charlie Cornish													
2003/04	Ordinary	7.1.04	1.4.03 to 31.3.06	80	188.0	490.0	28,710	28,710	182.0	11,931	n/a	**40,641**	**280.2**
	A shares					297.0	15,950	15,950	72.3	(15,950)	n/a	**–**	**–**
2004/05	Ordinary	30.6.04	1.4.04 to 31.3.07	80	188.0	547.0	25,407	25,407	161.1	10,558	n/a	**35,965**	**248.0**
	A shares					347.75	14,115	14,115	63.9	(14,115)	n/a	**–**	**–**
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	200.0	657.5	30,419	–	–	30,419	200.0	**30,419**	**209.7**
Total					576.0				479.3	52,908	200.0	**107,025**	**737.9**
Tom Drury													
2004/05	Ordinary	30.6.04	1.4.04 to 31.3.07	60	162.0	547.0	21,888	21,888	138.8	9,096	n/a	**30,984**	**213.6**
	A shares					347.75	12,160	12,160	55.1	(12,160)	n/a	**–**	**–**
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	248.0	657.5	37,719	–	–	37,719	248.0	**37,719**	**260.1**
Total					410.0				193.9	46,815	248.0	**68,703**	**473.7**
Gordon Waters													
2003/04	Ordinary	29.9.03	1.4.03 to 31.3.06	80	184.0	469.0	29,565	29,565	187.4	12,286	n/a	**41,851**	**288.6**
	A shares					276.0	16,425	16,425	74.4	(16,425)	n/a	**–**	**–**
2004/05	Ordinary	30.6.04	1.4.04 to 31.3.07	80	224.0	547.0	30,258	30,258	191.8	12,574	n/a	**42,832**	**295.3**
	A shares					347.75	16,810	16,810	76.1	(16,810)	n/a	**–**	**–**
2005/06	Ordinary	30.6.05	1.4.05 to 31.3.08	80	235.2	657.5	35,772	–	–	35,772	235.2	**35,772**	**246.6**
Total					643.2				529.7	60,632	235.2	**120,455**	**830.5**

Notes:

- The values shown for 1 April 2005 have been calculated using the mid-market price of a share at close of business on that date (634 pence (ordinary share) and 453 pence ('A' share)).
- The values shown for 31 March 2006 have been calculated using the mid-market price of an ordinary share at close of business on that date of 689.5 pence.
- The contingent scheme interest awarded during the year for the 2003/04 and 2004/05 awards was an adjustment in the number of shares in awards to take account of the second stage of the rights issue. The number of ordinary shares increased by a factor of 1.41559048 and the number of "A" shares reduced to zero. This reflects the position of shareholders taking up their rights and took account of the subscription cost.
- The market price of a share at award is the mid-market price of an ordinary or 'A' share at close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares 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.
- Philip Green's 2005/06 award was granted on the date he joined the group.
- Details of the criteria used for grants under the performance share plan are on pages 46 and 47. Tom Drury's 2004/05 award was granted prior to his joining the board. The performance conditions for the 2004/05 award set out on page 47 apply to 50 per cent of his award. The vesting of the other 50 per cent is subject to performance against cumulative EBITA and average ROCE targets over the three years from 1 April 2004 to 31 March 2007 set out in the business plan for Vertex Data Science Limited agreed immediately before the start of the performance period. There is a sliding scale of vesting.

(e) 2002/03 grant

During the year, awards granted under the 2002/03 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 2002 to 31 March 2005. At the beginning of the performance period the comparator group comprised the following 18 companies in addition to United Utilities: AWG, BAA, BG Group, Boots Company, British Energy, Centrica, International Power, J Sainsbury, Kelda Group, Lattice Group, Morrisons, National Grid Group, Safeway, Scottish & Southern Energy, Scottish Power, Severn Trent, Tesco and Viridian. Lattice Group was subsequently excluded from the comparator group following its merger with National Grid Group. National Grid Group continued as National Grid Transco. The takeover bid for Safeway and the delisting of British Energy occurred after the first three months of the performance period. Both were retained in the comparator group. United Utilities' TSR performance relative to them was compared from the beginning of the performance period until the day before the takeover activity announcement (Safeway) and the de-listing (British Energy).

United Utilities' TSR for the performance period was 39.9 per cent which placed it fifth out of 18, resulting in 97 per cent of the maximum award vesting and three 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 2004/05 set out in the group's five-year business plan to 2006/07. 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 27.

Table 27: Executive directors' scheme interests in the performance share plan vested during the year (audited information)

	Award details					Contingent scheme interest at 1 April 2005		Contingent scheme interest lapsed during the year	Contingent scheme interest vested during the year		Value of award at exercise	
	Award date	Performance period	% of salary	Max value at award date £'000	Market price of a share at award pence	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													
2002/03	1.10.02	1.4.02 to 31.3.05	80	360.0	587.5	61,276	70,872	449.3	2,127	68,745	470.9	676.62	465.1
Simon Batey													
2002/03	1.10.02	1.4.02 to 31.3.05	80	240.0	587.5	40,851	47,248	299.6	1,418	45,830	313.9	676.62	310.1
Gordon Waters													
2002/03	1.10.02	1.4.02 to 31.3.05	80	184.0	587.5	31,319	36,224	229.7	1,087	35,137	240.7	676.62	237.7

Notes:

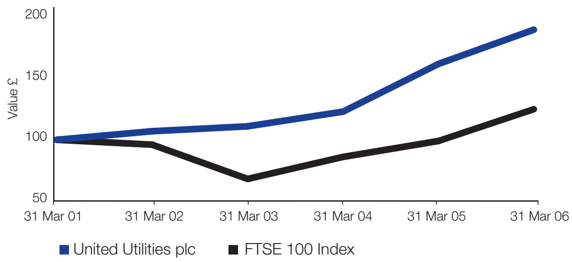
- The market price of a share at award is the mid-market price of a share (unadjusted for the rights issue) at close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprised in the award.
- The maximum number of shares comprising the contingent scheme interest at 1 April 2005 incorporates an adjustment to take account of the rights issue. The values of shares comprising awards based on the last quoted cum-rights share price of 531.5 pence was divided by the theoretical ex-rights price of 459.54 pence to determine the revised numbers of shares shown above.
- The maximum values shown for 1 April 2005 have been calculated using the mid-market price of a share of 634 pence at close of business on that date.
- Awards vested on 6 June 2005 in respect of 97 per cent of the maximum number of shares under option and lapsed in respect of three per cent. The values for scheme interests vesting during the year have been calculated using the mid-market price of a share of 685 pence on close of business on that date.
- The above awards were granted as 'option awards', whereby the participant is granted an option to acquire the number of shares which vests under the plan. The options were exercisable over a period of three months from the vesting date. No consideration was payable by the executives either upon grant of the option award or upon the subsequent exercise of the option. Simon Batey, John Roberts and Gordon Waters exercised their options on 6 June 2005 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 2001.

Chart 2: Total shareholder return

Source: Thomson Financial



Share options

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

Executive directors are eligible to participate in the all-employee SAYE scheme (ShareSave). Neither the award nor the exercise of ShareSave options is dependent upon the satisfaction of performance conditions. The last grant of options was ShareSave 2004. Details of their interest in ShareSave options and Tom Drury's interest in executive share options are shown in table 28.

Table 28: Directors' interests in options (audited information)

	At 1 April 2005	Granted/(lapsed) during the year	Exercised during the year	**At 31 March 2006**	Exercise price per share pence	First date exercisable	Last date exercisable
Simon Batey							
ShareSave 2004	1,751	–	–	**1,751**	396.0p	01.03.2007	31.08.2007
Total	1,751	–	–	**1,751**			
Tom Drury							
ShareSave 2003	303	–	303	**–**	423.66p	01.03.2006	31.08.2006
Executive share options	3,469	–	3,469	**–**	505.36p	20.12.1998	19.12.2005
Total	3,772	–	3,772	**–**			
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	–	382	**2,648**			

Notes:

- The mid-market price of a share on 31 March 2006 was 689.5 pence and the range in the year was 612 pence to 700 pence.
- No amount is payable by a participant for the grant of an option.
- Except for ShareSave 2004, the number of shares under option at 1 April 2005 and 31 March 2006 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 £7,852 (2005: £9,525).

Governance

Executive directors' shareholdings

Executive directors are expected to build up and retain a target shareholding equal to the value of their basic salary, normally within five years of appointment. Performance share plan awards are delivered in shares and executives can retain all the shares that vest if they make a cash payment to meet their PAYE statutory liabilities. The company prefers a flexible approach to the accumulation of a shareholding, which takes account of individual circumstances, and has decided not to require executives to retain a proportion of shares which vest under its incentive plans. Executive directors' interests in shares, as at 31 March 2006, are listed in table 14 of the directors' report on page 38. The value of these interests relative to their yearly salaries are shown in table 29 below.

Matched share investment scheme for Philip Green

Philip Green commenced employment with the company on 13 February 2006 and was appointed as a director of the company on 20 February 2006.

As part of the terms of his recruitment, the company has agreed to establish a matched share investment scheme. This is a long-term incentive scheme under which Philip Green is the sole participant. Full details of the scheme are set out below. The arrangement was introduced specifically to facilitate Philip Green's recruitment. The company considered the circumstances of his recruitment were such that it was important and necessary to introduce these arrangements to attract him as the new chief executive officer and to retain him up to and beyond the implementation of the next regulatory reviews.

Philip Green first became eligible to participate in the scheme upon commencement of his employment on 13 February 2006.

The principal terms are:

- he agreed to acquire, at the start of his contract and at his expense, shares in the company to the value of his annual salary and has invested in 100,000 shares in the company, ("Investment Shares");
- the company has agreed to match the Investment Shares on a one for one basis by making a matching share award which will take the form of a nil cost option over 100,000 shares in the company ("Matched Shares");
- the exercise price payable under the option shall be zero;
- in normal circumstances, the option will be capable of being exercised by Philip Green at the end of a five year period commencing from the date he joined the company provided that:
  - (a) he has maintained throughout this period a shareholding in the company of at least the number of Investment Shares; and
  - (b) he remains an employee within the group for the whole of the five-year period;
- the number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the Matched Shares over the course of the five-year period;
- in the event that Philip Green ceases to be an employee because of ill health or there is a change of control at any time during this five-year period, or he is dismissed without cause during years four and five, the number of shares over which his matching share award (including those notionally added by way of dividend reinvestment as mentioned above) may be exercised will be reduced on the basis of a time pro-rating depending on how much of the five-year period has elapsed as at the date of such cessation of employment or change of control;
- the matching award will be exercisable for a period of six months after the end of the five-year period and will lapse if not exercised by then. This period may be extended if Philip Green is prevented from exercising because of restrictions in place under the model code operated by the company;
- the matching share award will not be capable of assignment and until it is exercised, Philip Green will have no right to vote in respect of the shares subject to the matching share award;
- shares transferred pursuant to the exercise of the matching share award will rank pari passu in all respects with the shares in the company already in issue; and
- in the event of any increase or variation in the share capital of the company, the remuneration committee may recommend such adjustment to the matching share award as it considers reasonable.

The provisions under the scheme for Philip Green which relate to:

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

Table 29: Executive directors' shareholdings

	Yearly salary at 31 March 2006 £'000	Value of shareholding at 31 March 2006 £'000	Value of shareholding relative to yearly salary %	Target to be achieved by
John Roberts	540.0	1,301.6	241.0	1 September 2004
Philip Green	675.0	680.7	100.8	13 February 2011
Simon Batey	371.0	863.1	232.6	1 April 2005
Charlie Cornish	290.0	2.3	0.8	27 January 2009
Tom Drury	310.0	152.7	49.2	9 May 2010
Gordon Waters	315.0	517.5	164.3	1 June 2002

Note:

- The value of the shareholding is based on a share price of 680.7 pence. This is the share price averaged over the final three months of the financial year.

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

The benefits to Philip Green under the scheme are not pensionable.

The company believes that this arrangement and particularly the time period it relates to, which extends beyond the implementation of the next regulatory reviews, is a forceful alignment of interests between Philip Green and shareholders.

Pension arrangements

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

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

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

Changes to pensions policy

During the year the remuneration committee considered further the group's pensions policy, in particular in relation to the potential impact of legislative changes introduced in April 2006. It made or re-affirmed the following decisions:

- no compensation will be paid to a member in respect of additional tax payable on benefits paid by the pension scheme from funds in excess of the lifetime allowance;
- when executives reach the lifetime allowance they will be given the choice of continuing to accrue benefits within the pension scheme (and pay the higher tax charge) or be paid a cash allowance instead of accruing further pension benefits;
- at 6 April 2006 seven current executives had unfunded arrangements. All are members of the defined benefit section of UUPS. They have been given three months from 6 April 2006 to decide whether to transfer the value of part or all of their accrued unfunded benefit into the registered pension scheme or continue with the unfunded arrangement. They may also choose whether all future fund accrual should be within the registered scheme or any benefits in excess of those generated within the lifetime allowance should accrue under the unfunded arrangement or whether they wish to be paid a cash allowance instead of accruing pension benefits in the pension scheme or the unfunded arrangement when they reach the lifetime allowance;
- cash allowances would be paid as a percentage of salary. They would be based on the maximum employer contribution of either the standard 14 per cent or enhanced 25 per cent, where appropriate, for members of the defined contribution section or an average employer's contribution of 28 per cent for members of the defined benefit section. These percentages are to be adjusted so that cash allowances do not result in increased cost to the group. Currently, this results in cash allowances of 12 per cent (standard defined contribution), 22 per cent (enhanced defined contribution) and 25 per cent (defined benefit); and
- from 6 April 2006, the directors' regular contribution rates are levied on their pensionable pay, provided the amount for the year, when added to the company's contribution, does not exceed the annual allowance. In 2005/06, their regular contributions were limited to £15,840 a year which was 15 per cent of the earnings cap.

Directors' pension arrangements

Philip Green and Charlie Cornish are members of the defined contribution section. Philip Green contributes three per cent of basic salary. The company contributes six per cent of basic salary to the pension scheme and an additional 19 per cent to his private pension plan. Charlie Cornish contributes seven per cent and the company contributes 25 per cent of his basic salary to the pension scheme. The normal pension age is 65.

Simon Batey, Tom Drury and Gordon Waters are members of the defined benefit section which is now closed to new executives. John Roberts was a member until his retirement on 31 March 2006. The scheme provides a pension for them on normal retirement at age 60 based on a maximum accrual rate of 1/30th of pensionable earnings for each completed year of service. The maximum pension is two-thirds of pensionable earnings. Early retirement is possible from age 50 if the company agrees. In the event of early retirement, pension benefits are actuarially reduced. Simon Batey contributes five per cent and Tom Drury and Gordon Waters six per cent of their pensionable pay to the pension scheme. John Roberts contributed five per cent. In 2005/06, their contributions were subject to a maximum of £15,840, which was 15 per cent of the earnings cap. 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.

Unfunded unapproved pension arrangements

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

At 31 March 2005, there were 26 unfunded arrangements in place. Ten related to current executives, five to deferred pensioners and 11 to pension benefits in payment. During the year, the committee decided to offer to deferred pensioners and those in receipt of pension benefits the option to transfer within three months from 6 April 2006 part or all of their unfunded arrangement to the registered pension scheme. Those in receipt of pension benefits have also been offered until 6 July 2006 the facility to exchange their ongoing unfunded benefits for a cash lump sum.

Table 30: Executive directors' pension benefits (defined benefit scheme) (audited information)

	Accumulated total accrued pension at 1 April 2005		Increase in accrued pension during the year				Accumulated total accrued pension at 31 March 2006	
	£'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)	**£'000 p.a.**	**Transfer value £'000**
John Roberts	91.9	1,682.4	21.2	15.8	437.3	704.1	**115.2**	**2,402.3**
Simon Batey	56.6	781.5	14.3	15.8	214.5	364.1	**72.2**	**1,161.4**
Tom Drury	105.0	1,062.4	15.9	15.8	181.5	446.1	**123.3**	**1,524.3**
Gordon Waters	111.2	1,977.8	18.7	15.8	359.4	657.4	**132.4**	**2,651.0**

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 the 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.
- Although Tom Drury was appointed to the board on 9 May 2005, the figures in the table reflect the change in respect of the full year.

By 31 March 2006 five former executives had taken up the offer of a cash lump sum resulting in payments totalling £2,805,700. At that date, there were 22 unapproved arrangements in place. Nine related to current executives, four to deferred pensioners and nine to pension benefits in payment. The offer to exchange benefits for a cash lump sum will also be made to current executives with unfunded arrangements for a time-limited period when their benefits first become payable.

Further information on payments made during the year and the total cost of the unfunded arrangements is given in note 19 to the accounts.

Directors' accrued pension benefits

The pension benefits earned by directors in the defined benefit scheme during the year are shown in table 30.

During the year ended 31 March 2006, the company paid contributions for Charlie Cornish totalling £56,875 (2005: £34,125) to the defined contribution section of UUPS.

The total amounts set aside or accrued by the company or its subsidiaries in 2005/06 to provide pension, retirement or similar benefits for all directors and members of the executive leadership team as a group was £2,892,427.

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. Philip Green's contract provides for an initial notice period of 24 months which will reduce to 12 months' rolling notice after one year's service. The other current executive directors have one-year notice periods.

Contracts terminate automatically upon the director reaching age 65 (Simon Batey, Tom Drury and Gordon Waters: 60) unless the company agrees that a director may continue to work after attaining that age. No special arrangements apply if there is a change of control.

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. 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 31.

Simon Batey will be leaving the company on 31 July 2006. His contract provides for a notice period of one year in line with company policy. It is anticipated that he will continue to work for the company and be paid normally in accordance with his contract until the end of July 2006 to provide the opportunity to effect a smooth transition. Thereafter, he will not be required to work the balance of his notice period. His pension benefits will be calculated as if he had worked for the company until 31 January 2007 and his life and medical cover will continue until that date. He will receive a cash lump sum of £192,500 (less statutory deductions as appropriate) in lieu of the balance of his basic pay and car allowance. His annual bonus and performance share plan awards for 2004/05 and 2005/06 will be pro-rated in accordance with the rules of those plans and remain subject to the performance conditions associated with them.

Table 31: Executive directors' and senior managers' service contracts as at 31 March 2006

	Date of contract	Unexpired term (to 60th birthday*)	Notice period	Contractual compensation upon early termination
Philip Green	13.02.06	12.05.18	Initially 24 months reducing to 12 months (rolling) after one year's service	No explicit provision (other than payment for outstanding holidays)
John Roberts	01.09.99	–	12 months (rolling)	No explicit provision (other than payment for outstanding holidays)
Simon Batey	01.04.00	–	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)
Gordon Waters	01.03.96	06.06.07	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)
Ian Priestner	16.10.00	20.04.17	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)

Notes:

- The unexpired terms for Philip Green and Charlie Cornish are to their 65th birthdays.
- John Roberts retired on 31 March 2006.
- Simon Batey will be leaving the company on 31 July 2006.
- Ian Priestner left the company on 30 April 2006.

Governance

SENIOR MANAGERS

During the year, the aggregate amount of emoluments paid to senior managers (see page 37) was £1,509,504 (2005: £2,245,355). This includes basic pay, benefits in kind and annual bonuses earned and accrued in the year to 31 March 2006. Details of their emoluments for the year are included, on a banded basis, in table 32.

Table 32: Senior managers' emoluments

	Total emoluments £'000
1	450.0+
–	350.0 – 449.9
2	250.0 – 349.9
2	<250.0

Notes:

- The above table includes data for Tom Drury prior to his appointment to the board on 9 May 2005 and Hugh Logan who left the company on 26 February 2006.

Approved by the board of directors on 31 May 2006 and signed on its behalf by

David Jones
Remuneration committee chairman