

THE REMUNERATION COMMITTEE: TERMS OF REFERENCE

(Re-adopted by the board on 22 November 2011)

Constitution

1. There shall be a committee of the board to be known as the remuneration committee which will act in a way which the committee considers, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole.
2. The committee will comprise independent non-executive directors appointed by the Board. A quorum shall be two members.
3. Unless exceptional circumstances or succession planning requires otherwise appointments should, generally be for a period of up to three years, extendable by no more than two additional three year periods so long as members continue to be independent.
4. The chairman of the committee shall be appointed by the board, following consultation with the nomination committee. In the absence of the committee's chairman, the committee will appoint one of its members to be chairman of the committee.
5. The company secretary (or his/her nominee) shall be secretary to the committee and shall keep appropriate minutes of its proceedings which will be circulated promptly to all members of the committee and once approved to all non-executive directors and the Chief Executive Officer unless a conflict of interest exists. The secretary shall ascertain at the beginning of each meeting of the committee, the existence of any conflicts and minute them accordingly.
6. No one other than the members of the committee is entitled to be present at a meeting of the committee but others may attend at the invitation of the committee including but not limited to the Chief Executive Officer, the HR Director and the committee's advisers. The chairman of the board and other board members may attend, if invited by the committee to do so.
7. Meetings shall be held at least twice a year and may be held in person or by telephone or videoconference.
8. In the event that a member of the committee is unable to attend a regular or ad-hoc meeting of the committee, such member may appoint an independent non-executive director to act as an alternate member of the committee and attend the meeting in his or her place. The said alternate members shall have full powers of a regular member of the committee when attending any such meeting as a substitute for any absent member.
9. The committee's duties and activities during the year shall be disclosed in the annual report and financial statements.
10. The chairman of the committee shall attend the annual general meeting and shall answer questions, through the chairman of the board, on the remuneration committee's activities and their responsibilities.

Powers

11. The committee is authorised to take such internal and external advice, as it shall consider

UNITED UTILITIES GROUP PLC: CORPORATE GOVERNANCE HANDBOOK

appropriate, in connection with the carrying out of its duties and shall appoint its own external remuneration advisers.

12. The committee has no authority in relation to the remuneration of the non-executive directors other than the Chairman.

13. The committee shall have regard to and shall comply with the code of best practice, the listing rules of the UK Listing Authority and the Companies Acts relating to remuneration committees or remuneration of directors and shall also have regard to any authoritative best practice guidelines for remuneration committees published from time to time.

Duties

14. The committee's duties are:

(a) to make recommendations to the board on the Group's framework of executive remuneration and its cost;

(b) to approve for all members of the executive prior to 31 May 2011, the Company Secretary and those senior executives whose base pay is not less than £200,000 (all such employees referred to as 'Senior Executives' within these terms of reference), the entire individual recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms, individual bonus plans and targets and the subsequent achievement of performance against targets;

(c) to approve the general recruitment terms, remuneration benefits, employment conditions and severance terms, general incentive and annual and long term bonus plans and targets (and to note the subsequent achievement of overall performance against targets) for such senior employees who are not Senior Executives as it considers appropriate;

(d) to approve the remuneration of the Chairman;

(e) to review and recommend to the board the policies for authorising claims for expenses for the Chief Executive Officer and the executive directors;

(f) to propose for the approval of the board and for recommendation by the board to shareholders all new long term incentive schemes;

(g) to approve the rules and associated guidelines for the granting of awards under the Company's long term incentive plans; and

(h) assist the board in reporting to the Company's shareholders on remuneration policies applicable to executive directors in accordance with the listing rules of the UK Listing Authority and to the Companies Acts;

(i) to undertake appropriate discussions as necessary with institutional investors on policy or any other aspects of senior remuneration;

(j) to review annually and update its terms of reference, recommending any changes to the board and to evaluate its own membership, effectiveness and performance on a regular basis.

15. In determining the remuneration and incentive packages of the Senior Executives, the committee should:

(a) provide the packages needed to attract, retain and motivate Senior Executives of the quality required to run the Company successfully but should avoid paying more than is necessary for this purpose. A significant proportion of the Senior Executives' remuneration should be structured so as to link rewards to corporate and individual performance;

(b) judge where to position the Company relative to other companies. But the committee should use such comparisons with caution, in view of the risk that they can result in an upward ratchet of remuneration levels with no corresponding improvement in performance; and

(c) be cognisant of the pay and employment conditions elsewhere in the Group especially when determining annual salary increases.

16. In determining the basis on which the employment of individual Senior Executives is terminated, where a service contract does not explicitly provide for compensation commitments or liquidated damages for termination without cause by the Company, the committee should within legal constraints, tailor its approach in individual early termination cases to the particular circumstances surrounding the termination. The broad aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance and to take a robust line on reducing compensation to reflect any obligation to mitigate loss on the part of the departing executive.