

## Remuneration report

The Remuneration Committee is responsible for the overall remuneration policy. In particular the committee's responsibilities include:

- The remuneration and other terms and conditions of employment of the Executive Directors and the Company Secretary;
- The remuneration of the Chairman; and
- Reviewing the remuneration trends across the Company's subsidiaries and determining the remuneration of designated senior management.

The members of the Remuneration Committee during the year were:

The Hon. J H M Bruce (Chairman)  
J M Neill (resigned 24 June 2005)  
G Denham (appointed 7 February 2005)  
A S C Osborne (appointed 7 February 2005)  
J A Biles (appointed 1 April 2005)

During the year the following parties provided advice that materially assisted the committee:

- Hewitt Bacon & Woodrow, who provided the Company with actuarial advice in relation to pensions;
- New Bridge Street Consultants LLP, who provided advice to the committee regarding Executive Directors' remuneration and long term incentive arrangements; and
- Slaughter and May, who provided the Company with general legal advice.

### Remuneration policy

The Company aims to attract, motivate and retain high calibre executives by ensuring their rewards are competitive and linked to both individual and business performance.

Consistent with this policy, the benefit packages awarded to Executive Directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration. Executive Directors' remuneration is reviewed each year to ensure it is supportive of the Company's business objectives and the creation of shareholder value.

All Executive Directors are contractually entitled to be considered for a bonus up to a maximum of 75 per cent of their respective base salaries. The bonuses for all Executive Directors are on the basis of performance against a number of pre-determined measures approved by the Remuneration Committee.

It is the intention of the Remuneration Committee that there should be long term incentive plans for Executive Directors whereby they are rewarded with interests in the Company's shares for sustained performance over a period of time. A new long term incentive plan for senior executives, including Executive Directors, was approved by shareholders at the annual general meeting of the Company held on 24 June 2005.

Non-Executive Directors do not participate in the Company's share option schemes, long term incentive plans or pension schemes.

The remuneration packages for other key management of the Group are designed to operate on a basis similar to that of Executive Directors.

The Company complies fully with Section 7A of the Companies Act 1985.

### Directors' service contracts

It is the Company's policy that Executive Directors' service contracts should have notice periods of not more than one year. Non-Executive Directors' service contracts normally run for three years and are terminable by the Company or the Directors upon one month's notice.

The details of the service contracts of those who served as Directors during the year are set out in the table below.

#### Details of Directors' service contracts

	Contract date	Unexpired term	Notice period	Contractual termination payment
D Gawler	25.06.04	3 months	3 months, (Company) 3 months, (Executive)	3 months salary plus payment in lieu of pension benefits,
M G Foster	03.12.04	No fixed term (normal retirement date 17.02.13 being 60th birthday)	12 months (Company) 9 months (Executive)	12 months salary plus payment in lieu of pension benefits
R A Careless	25.06.04	No fixed term (normal retirement date 09.12.13 being 60th birthday)	12 months (Company) 6 months (Executive)	12 months salary plus payment in lieu of pension benefits
The Hon. James Bruce	25.06.04	15 months	1 month	Nil
J M Neill	25.06.04	15 months	1 month	Nil
G Denham	07.02.05	22 months	1 month	Nil
A S C Osborne	07.02.05	22 months	1 month	Nil
J A Biles	01.04.05	24 months	1 month	Nil

<sup>1</sup> on basis of the unexpired term of the fixed term contract.

On 30 June 2006, Mr Gawler will be standing down from his current role as Chief Executive but has agreed to remain as part-time Executive Chairman. A new service contract will come into force on 1 July 2006, under which Mr Gawler will devote on average seven working days a month to his duties. This service contract can be terminated by the Company or Mr Gawler on three months' written notice.

Under his new service contract, Mr Gawler, whose total compensation will be an annual salary of £270,000 (inclusive of director's fees), will not be entitled to participate in any of the Company's incentive or benefit plans. He will, however, retain rights already granted to him under the Charter (DG – 2004) Incentive Plan which will vest and be discharged later this year.

## Directors' emoluments

	Salary and fees £	Bonuses £	Benefits £	Payment in lieu of pension £	Payment in lieu of life assurance £	Relocation £	Total 2005 £	Total 2004 £
<b>Executive</b>								
D Gawler (Chairman)	500,000	375,000	17,372	125,000	62,356	–	<b>1,079,728</b>	1,073,378
M G Foster	325,000	243,750	17,396	55,075	–	75,000	<b>716,221</b>	–
R A Careless	215,000	161,250	11,941	27,575	–	–	<b>415,766</b>	233,930
D M Eilbeck	–	–	–	–	–	–	<b>–</b>	395,158 <sub>2</sub>
	1,040,000	780,000	46,709	207,650	62,356	75,000	<b>2,211,715</b>	1,702,466
<b>Non-Executive</b>								
The Hon. James Bruce	55,000	–	–	–	–	–	<b>55,000</b>	47,004
J M Neill	55,000	–	–	–	–	–	<b>55,000</b>	47,004
G Denham	49,218	–	–	–	–	–	<b>49,218</b>	–
A S C Osborne	49,218	–	–	–	–	–	<b>49,218</b>	–
J A Biles	41,250	–	–	–	–	–	<b>41,250</b>	–
M G Foster	–	–	–	–	–	–	<b>–</b>	47,004
H Mullan	–	–	–	–	–	–	<b>–</b>	76,244
	249,686	–	–	–	–	–	<b>249,686</b>	217,256
<b>Total</b>	<b>1,289,686</b>	<b>780,000</b>	<b>46,709</b>	<b>207,650</b>	<b>62,356</b>	<b>75,000</b>	<b>2,461,401</b>	<b>1,919,722</b>

<sup>1</sup> two (2004: three) Executive Directors have waived their fees from a subsidiary undertaking. Fees waived by these Directors during the year amounted to £1,200 (2004: £1,200).

<sup>2</sup> the amount shown above for Mr Eilbeck for 2004 included £317,200 for compensation for termination, based on the terms of his contract.

### Bonuses

The bonuses for 2005 for all Executive Directors were based on 75 per cent of base salary. These are the maximum amounts payable under the terms of their contracts and have been approved by the Remuneration Committee on the basis of their performance against a number of pre-determined measures and because of the exceptional performance of the Company during the year.

### Benefits

Benefits comprise tax assessable benefits arising from employment and include car and petrol allowances, medical insurance for the Executive Directors and their immediate dependants and life assurance.

### Pensions and payments in lieu of pensions and life assurance

Mr Gawler is not a member of the Company's pension scheme and a contribution of £125,000 per annum (equivalent to 25 per cent of his salary) was paid to him in lieu of a pension and is included in his emoluments above. Mr Gawler's contract allows him the option to receive an amount in lieu of life assurance. This amounted to £62,356 in 2005 (2004: £55,674) and is included in his emoluments above.

Mr Foster and Mr Careless are both members of the Company's HMRC approved pension scheme, providing benefits of one-thirtieth of base salary and one-fortieth of base salary respectively for each year of service as an Executive Director. They are both subject to the cap on pensionable earnings and are entitled to receive, in lieu of pension, an additional 25 per cent of non-pensionable salary to the extent that their salary exceeds the cap and such payments to them are included in their emoluments above.

The accrued entitlement given below includes entitlement earned by Mr Careless as an employee, prior to becoming a Director, as well as that earned for qualifying services after becoming a Director.

	M G Foster £	R A Careless £
Accumulated total accrued pension at year end,	3,500	7,800
Increase in accrued pension during year excluding inflation	3,500	2,400
Increase in accrued pension during year including inflation	3,500	2,500
Transfer value of benefits accrued during the year excluding inflation	53,900	35,300
Transfer value of benefits accrued during the year including inflation	53,900	37,800
Transfer value accrued at end of year	53,900	116,600
Transfer value at start of year	–	72,300
Increase in transfer value over year	53,900	44,300

<sup>1</sup> the pension entitlement shown in the first row is the aggregate amount which would be paid annually on normal retirement based on service to the end of 2005 under the approved scheme.

<sup>2</sup> the transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

<sup>3</sup> the transfer value of the accrued entitlement represents the value of assets that the pension schemes would need to transfer to another pension provider on transferring the scheme's liabilities in respect of the Director's pension benefits. It does not represent sums payable to the individual Directors and, therefore, cannot be added meaningfully to annual remuneration.

<sup>4</sup> the transfer value of the increases in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the Director has earned in the period, whereas the change in his transfer value, required by the Companies Act, discloses the absolute increase or decrease in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as additional value earned in the year.

## Remuneration report (continued)

### Interests in shares, share options and long term incentive plans

The interests of Directors in shares, share options and share awards of the Company as at 31 December 2005, all of which are beneficial interests, are set out below.

	Shares		Share options		Conditional shares		Exercise price
	01.01.05 or on appointment	31.12.05	01.01.05	31.12.05	01.01.05	31.12.05	
D Gawler,	40,000	65,000	–	–	–	–	
M G Foster	13,634	18,634	–	149,089 <sub>2</sub>	–	–	217.99p
R A Careless	–	5,000	–	–	–	52,439 <sub>3</sub>	nil
The Hon. James Bruce	–	–	–	–	–	–	
J M Neill	29,371	29,371	–	–	–	–	
G Denham	–	1,000	–	–	–	–	
A S C Osborne	–	–	–	–	–	–	
J A Biles	–	–	–	–	–	–	

<sup>1</sup> details of Mr Gawler's long term incentive plan are set out below.

<sup>2</sup> details of Mr Foster's long term incentive plan are set out below.

<sup>3</sup> award made under 2005 Plan (as described below).

<sup>4</sup> there was no change in the interests of the Directors between 31 December 2005 and 16 March 2006. An update will be given in the notice of the annual general meeting.

### Long term incentive plans

#### Charter (DG – 2004) Incentive Plan

Mr Gawler participates in the Charter (DG – 2004) Incentive Plan, which was approved by shareholders on 25 June 2004. Under this plan Mr Gawler was awarded a contingent right to receive cash or securities. The award vests on 30 June 2006, or at an earlier date if Mr Gawler's employment ceases in certain permitted circumstances or on a change in control of the Company. On vesting Mr Gawler becomes entitled to an amount, which may be settled, at the Company's option, in cash or the issue or transfer of shares in the Company or any of its subsidiaries, or a combination of all or any of these. The Board has resolved that this award will be settled by the issue of shares in the Company.

The gross amount of the total payment will be calculated in accordance with the formula:

$$£1 \times ((V - 158) \times 96V)$$

where V is a number, being the lesser of the average share price in the period comprising the 20 dealing days following the date on which the annual results for the calendar year ending 31 December 2005 are announced (which took place on 16 March 2006) and 395. The maximum gross amount payable under this award, which arises if this average share price is 395 pence or above, is £8,987,040.

#### Mr Foster's long term incentive plan

During 2005, Mr Foster was entitled to participate in a long term incentive plan, which was introduced specifically to facilitate and secure his appointment as Commercial Director of the Company.

Under the terms of this plan, Mr Foster was granted an option on 22 March 2005 over 149,089 ordinary shares in the Company at an exercise price of 217.99 pence per share (being the average of the closing middle market price of a share in the Company in each of the dealing days in December 2004). The share price at the date of the option grant was 269.0 pence per share. Exercise of 50 per cent of the option requires average real earnings per share growth of 3 per cent per annum over a single three-year period and the balance of the option relates to the Company's Total Shareholder Return ("TSR") compared to the constituents of the FTSE Mid 250 Index. No vesting will occur for a below median ranking. 50 per cent of the TSR part of the grant will vest for a median ranking and 100 per cent at upper quartile, with pro rata vesting for intermediate performance. Benefits under the plan are not pensionable.

The Remuneration Committee may adjust the option as it considers appropriate. Such adjustment may be to any or all of the nominal amount and the number of shares under the option and the exercise price. However, any such adjustment must be on the basis that, so far as possible, there is no material change to the total exercise price of the option. The Remuneration Committee may not reduce the exercise price of an unissued share to below its nominal value unless and to the extent permitted under the Companies Act 1985 and the Company's Articles of Association.

The vested option may be exercised in whole or in part during the period of 12 months starting with the date of the preliminary announcement by the Company of its results for the year ended 31 December 2007.

#### Charter 2005 Long Term Incentive Plan ("2005 Plan")

Following a review of the Company's long-term incentive arrangements by the Remuneration Committee, the 2005 Plan was approved at the annual general meeting held on 24 June 2005. Under the 2005 Plan, Executive Directors and senior executives are able to receive awards in one of three forms: (i) conditional allocations, where a participant receives free ordinary shares in the Company automatically on vesting; (ii) nil (or nominal) cost options, where a participant can decide when to exercise his award during a short period after it has vested; or (iii) forfeitable shares in the Company, which are similar to conditional shares except that the participant has certain shareholder benefits prior to vesting. The Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash (either in whole or in part), although it does not intend to do so except where it would be expedient in overseas jurisdictions.

Vesting will be based on Charter's TSR performance compared to the constituents of the FTSE Mid 250 Index (excluding Investment Trusts) over a single three-year period beginning on the date of the grant of the award. No vesting will occur for a below median ranking. At median, 25 per cent of the shares will vest and 100 per cent of the shares will vest at upper quartile. Between median and upper quartile rankings, awards will vest on a pro rata basis. An individual may not receive awards in any financial year over shares having a market value in excess of 100 per cent of his annual salary except in exceptional circumstances, such as recruitment or retention, where an individual may receive an award over shares worth up to 200 per cent of his annual salary.

In addition, awards will only vest if the Remuneration Committee is satisfied that there has been a significant improvement in the Company's underlying financial performance over the three year performance period.

The committee may vary the performance conditions applicable to these awards to take account of events that the committee considers to be exceptional, including technical events such as changes in accounting standards, provided that, in the reasonable opinion of the committee, the varied conditions are at least as challenging as the original condition would have been but for the event in question.

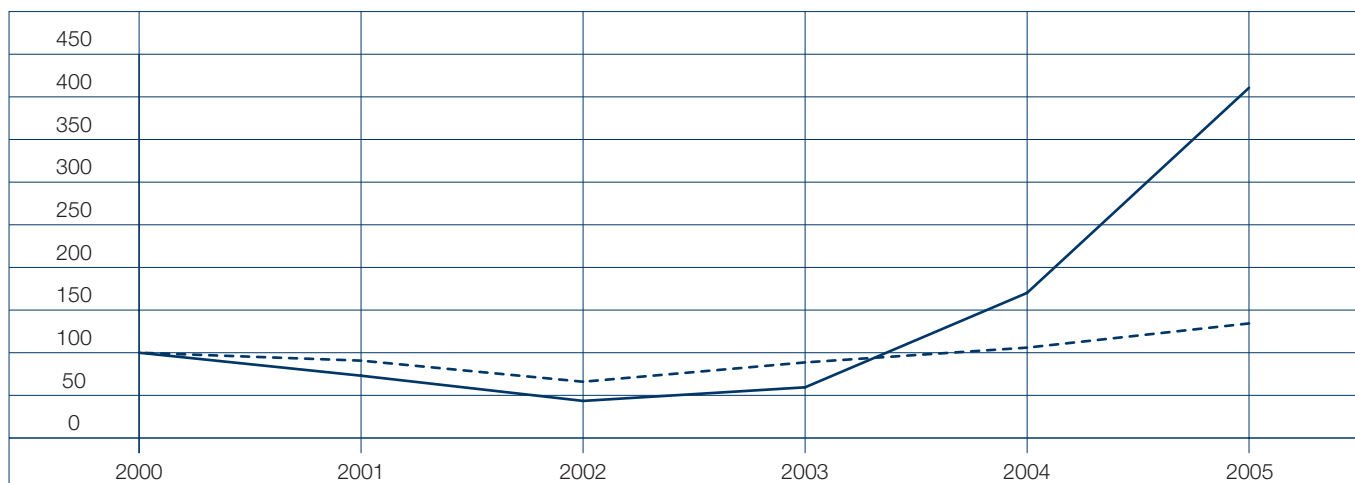
An award will normally only vest on or after the third anniversary of the date of grant provided the executive remains an employee of Charter and the performance conditions and any other objective conditions have been satisfied. On the vesting of an award the executive acquires fully paid ordinary shares in the Company.

During 2005 the committee has made one award under the 2005 Plan, to Mr Careless, the Finance Director. Mr Careless was conditionally awarded 52,439 ordinary shares in the Company on 6 October 2005 on which date the share price was 404.25 pence. In accordance with the rules of the scheme, the award was based on the average share price for the five dealing days prior to the grant (being 410 pence) and 100 per cent of Mr Careless's annual salary.

### Total Shareholder Return

The chart below sets out the TSR generated by Charter and the TSR on the FTSE Mid 250 Index since 2000.

The share price at 31 December 2005 was 560 pence. The highest price for the year was 560 pence and the lowest was 220 pence.



— Charter (Total return) rebased to 100  
 - - FTSE 250 (Total return) rebased to 100

In the opinion of the Directors, the FTSE Mid 250 Index is the most appropriate index against which the total shareholder return of Charter plc should be measured because it is an index of similar sized companies.

### Other

The Company has outstanding various other long term incentive schemes which might result in the issue of new ordinary shares.

At 31 December 2005, 16 participants held options over 626,725 shares; these options were granted under various employee share option schemes and are exercisable during various periods up to 19 May 2012 at prices ranging from 139.9 pence to 727.8 pence. Included in the above, under the terms of the Equity Partnership Plan, approved by shareholders in 1997, are deferred rights to acquire shares. This plan has not operated since 2001. At 31 December 2005, 3 participants held rights over 48,209 shares. As none of the performance targets associated with any of the awards has been met, the awards would only be of value in the event of a change in control of the Company. The exercise price of these awards would be funded by a cash bonus payable at the date of exercise and therefore the effective cost to the allottee would be nil.

The Remuneration Committee has no intention to make any further awards under any of these schemes.

By order of the Board

### The Hon. James Bruce

Chairman of the Remuneration Committee  
 16 March 2006