

Remuneration report

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. Directors' remuneration is reviewed each year to ensure it is supportive of the Company's business objectives and the creation of shareholder value. The Company complies fully with Section 7A of the Companies Act 1985.

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were:

H P R Mullan (Chairman until 6 December 2004) (resigned as a director 6 December 2004)

J H M Bruce (Chairman from 6 December 2004)

M G Foster (resigned from Committee 29 October 2004)

J M Neill

G Denham and A S C Osborne were appointed to the Remuneration Committee on 7 February 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;

Slaughter and May, who provided the Company with general legal advice;

Odgers, Ray & Berndtson, who provided advice in relation to the recruitment of Mr Careless as Finance Director and Mr Foster as Commercial Director; and Hanson Green, who provided advice in relation to the recruitment of non-executive directors.

The Remuneration Committee also received advice during the year from P C White (Internal Human Resources).

Subsequent to 31 December 2004, New Bridge Street Consultants LLP has also provided advice to the Committee regarding certain long-term incentive arrangements.

Directors' remuneration

Three (2003: two) executive directors have waived their directors' fees from a subsidiary undertaking. Fees waived by these directors during the year amounted to £1,200 (2003: £1,200).

Directors' service contracts

	Contract date	Unexpired term	Notice period	Contractual termination payments
D Gawler	25/06/04	15 months	Company : 12 months Executive : 12 months	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)	Company : 12 months Executive : 6 months	12 months salary plus payment in lieu of pension benefits
D M Eilbeck	29/06/01	N/A – resigned 22/04/04	Company : 12 months Executive : 6 months	12 months salary plus payment in lieu of pension benefits
M G Foster (Executive director from 01/01/05)	03/12/04	No fixed term (normal retirement date 17/02/13 being 60th birthday)	Company : 12 months, to expire on or after a date falling 24 months after appointment Executive : 9 months	Salary plus payment in lieu of pension benefits for the notice period
(Non executive director to 31/12/04)	25/06/04	N/A – became executive director 01/01/05	1 month	nil
J H M Bruce	25/06/04	27 months	1 month	nil
H P R Mullan	25/06/04	N/A – resigned 06/12/04	1 month	nil
J M Neill	25/06/04	27 months	1 month	nil
G Denham	07/02/05	34 months	1 month	nil
A S C Osborne	07/02/05	34 months	1 month	nil

Benefits

Benefits comprise tax assessable benefits arising from employment. These include car and petrol allowances, medical insurance for the director and his immediate dependants and life assurance.

Mr Gawler's contract allows him the option to receive an amount in lieu of life assurance. This amounted to £55,674 in 2004 and is included in his emoluments on page 21.

Pensions

Mr Gawler is not a member of the Company's pension scheme. Since becoming an executive director a contribution of £125,000 per annum is payable to him in lieu of a pension and is included in his emoluments on page 21. This contribution level is reviewable annually.

Mr Careless is a member of the Company's Inland Revenue approved pension scheme providing pension benefits of one-fortieth of base salary for each year of service. He is subject to the cap on pensionable earnings and is entitled to receive, in lieu of pension, an additional 25 per cent of his non-pensionable salary to the extent that his salary exceeds the cap.

From 1 January 2005 Mr Foster was also a member of the Company's Inland Revenue approved pension scheme providing benefits of one-thirtieth of base salary for each year of service as an executive director. He is also subject to the cap on pensionable earnings and is entitled to receive, in lieu of pension, an additional 25 per cent of his non-pensionable salary to the extent that his salary exceeds the cap.

Having left the Company Mr Eilbeck has a deferred pension entitlement based on one-thirtieth of salary for each year of service. He was subject to the cap on pensionable earnings and, to the extent that the unapproved scheme was unable to provide on his earnings in excess of the Inland Revenue earnings cap, a funded unapproved scheme was established to make good the shortfall.

The accrued entitlement given below includes entitlement earned as an employee, prior to becoming a director as well as those earned for qualifying services after becoming a director.

Directors' pension

	R A Careless £	D M Eilbeck £
Accumulated total accrued pension at year end	5,300	61,700
Increase in accrued pension during year excluding inflation	2,300	1,100
Increase in accrued pension during year including inflation	2,400	2,800
Transfer value of benefits accrued during the year excluding inflation	31,100	14,900
Transfer value of benefits accrued during the year including inflation	32,200	34,200
Transfer value accrued at end of year	72,300	719,200
Transfer value at start of year	36,400	620,800
Increase in transfer value over year	35,900	98,400

- (i) 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 2004 (to the date of leaving the Company for Mr Eilbeck) under the approved and unapproved schemes.
- (ii) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- (iii) 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.
- (iv) 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.
- (v) In addition to the above, a discretionary bonus of £523 was paid to Mr Eilbeck during the year in respect of life assurance cover.

Bonuses

All executive directors are contractually entitled to a bonus up to a maximum of 75 per cent of base salary. The 2004 bonuses for Mr Gawler and Mr Careless were the maximum amounts payable because of their contribution to the exceptional performance of the Company during the year. The bonuses for 2005 for all executive directors will be on the basis of their performance against a number of pre-determined measures approved by the Remuneration Committee.

Directors' emoluments

	Salary & Fees £	Benefits £	Bonuses £	Compensation for loss of office £	Payment in lieu of pension £	Payment in lieu of life assurance £	Total 2004 £	Total 2003 £
Executive								
D Gawler (Chairman)	500,000	17,704	375,000	-	125,000	55,674	1,073,378	678,000
D M Eilbeck	73,990	3,968	-	317,200	-	-	395,158	254,000
R A Careless	121,378	8,860	91,034	-	12,658	-	233,930	-
	<u>695,368</u>	<u>30,532</u>	<u>466,034</u>	<u>317,200</u>	<u>137,658</u>	<u>55,674</u>	<u>1,702,466</u>	<u>932,000</u>
Non-executive								
J M Neill	47,004	-	-	-	-	-	47,004	39,000
J H M Bruce	47,004	-	-	-	-	-	47,004	39,000
M G Foster	47,004	-	-	-	-	-	47,004	39,000
H P R Mullan	76,244	-	-	-	-	-	76,244	65,000
	<u>217,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,256</u>	<u>182,000</u>
Total	<u>912,624</u>	<u>30,532</u>	<u>466,034</u>	<u>317,200</u>	<u>137,658</u>	<u>55,674</u>	<u>1,919,722</u>	<u>1,114,000</u>

Remuneration report

continued

Notes:

- i) The amounts included above for Mr Careless exclude amounts earned prior to his appointment as a director and an amount payable by way of bonus of £28,496 in relation to this period.
- ii) Compensation for loss of office for Mr Eilbeck was based on the terms of his contract.

Equity Partnership Plan

The Equity Partnership Plan was approved by shareholders in 1997. Its objective was to strengthen the link between executive rewards and the creation of value for shareholders. Under the Equity Partnership Plan, selected executives received two types of incentive awards (Bonus Shares and Performance Shares) which, respectively, reflected the focus on medium and long term performance.

No new awards have been made under the Equity Partnership Plan since 2001. Details of the options granted in prior years in respect of the Equity Partnership Plan awards are included in the table of options shown below. As none of the performance targets associated with any of the awards has been met, the awards would only be of any value in the event of a change in control of the Company.

Share options and interests in shares

Prior to his appointment as a director Mr Eilbeck was granted options and awards under the Equity Partnership Plan disclosed in the table below. Options were granted at the current market price and are normally exercisable between three and ten years after the grant. Mr Eilbeck's options lapsed upon his resignation as a director of the Company on 22 April 2004.

The interests of directors in shares and share options of the Company as at 31 December 2004, all of which are beneficial interests, are as follows:-

	Shares		Number of share options		Options exercise price per share	Options exercisable between
	01.01.04 or on appointment	31.12.04	01.01.04	31.12.04		
J H M Bruce	-	-				
R A Careless	-	-				
M G Foster	-	13,634				
D Gawler	-	40,000				
J M Neil	2,732	29,371				
D M Eilbeck – resigned 22 April 2004	-		7,909	-	828 p	lapsed
			3,052	-	Nil p*	lapsed
			5,245	-	Nil p*	lapsed
			7,646	-	Nil p*	lapsed
			<u>23,852</u>	<u>-</u>		
H P R Mullan – resigned 6 December 2004	-					

* The exercise prices of these amounts under the Equity Partnership Plan are 831.2p, 710.5p and 376.0p. They would if exercised however, be funded by a cash bonus payable at the date of exercise of the options and therefore the effective cost to the director is nil. The share price on 31 December 2004 was 232.0p and on 31 December 2003 was 102.5p. The high price for the year was 232.0p and the low was 76.29p.

Mr Denham and Mr Osborne have no interests in the shares of the Company. Mr Foster was granted options over 149,089 shares after the year end as a long-term incentive plan. Further details are set out below. There was no change in the interests of the other current directors between 31 December 2004 and 23 March 2005. An update will be given in the notice of the annual general meeting.

Long-term incentive plans (LTIPs)

Mr Gawler is entitled to participate 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 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 the annual results for the calendar year ending 31 December 2005 are announced and 395.

Mr Foster is also entitled to participate in a Long Term Incentive Plan which was introduced specifically to facilitate and secure the appointment of Mr Foster as Commercial Director of the Company. The board considered that a new executive appointment was necessary to strengthen the management of the Company and that Mr Foster was an ideal candidate. However at the time he had received several other offers, all of which included significant equity awards and therefore in order to recruit him, it was necessary to establish a plan for him which allowed him similar levels of participation in 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 217.99p 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). 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. 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.

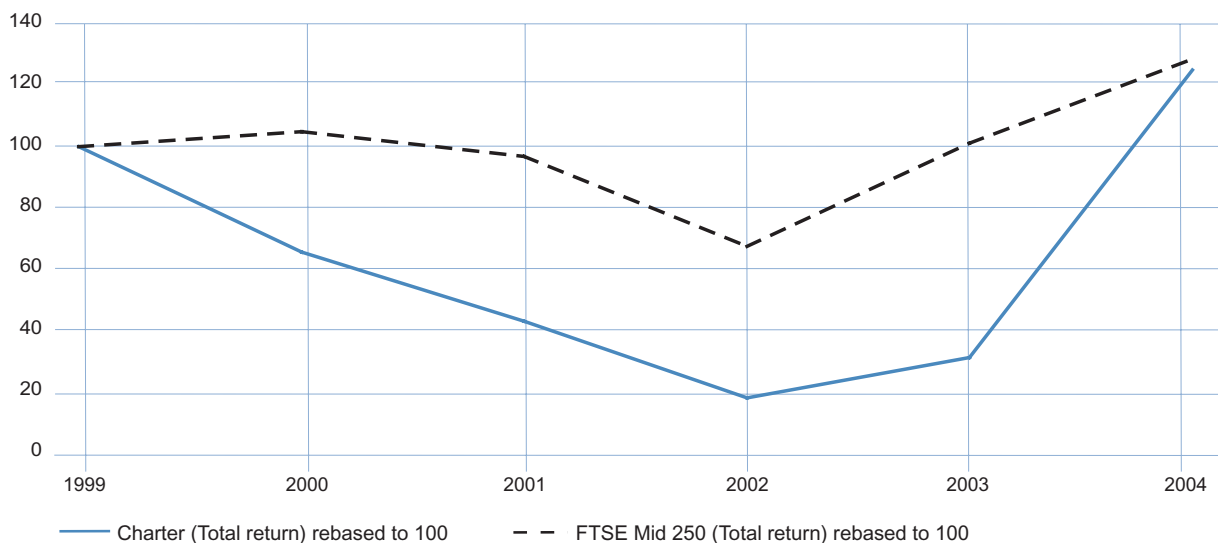
The Remuneration Committee may adjust the option as it considers appropriate. Such adjustment may be to any or all of the nominal amount and the number of shares under the option and the exercise price. However, any such adjustment must be on the basis that, so far as possible, there is no material change 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 twelve months starting with the date of the preliminary announcement by the Company of its results for the year ended 31 December 2007.

The Remuneration Committee has reviewed the Company's long-term incentive arrangements and wishes, subject to shareholder approval at the annual general meeting, to introduce a new Long Term Incentive Plan (the "2005 Plan"). Under the 2005 Plan, executives will be able to receive a conditional award of shares in Charter, the vesting of which will be based on Charter's Total Shareholder Return performance compared to the constituents of the FTSE Mid 250 Index (excluding Investment Trusts) over a single three-year period. 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.

In 2005, the Committee intends to make awards under the 2005 Plan to Mr Careless, the Finance Director and the Committee may also extend it to other senior executives. Since Mr Foster received a grant of share options as part of his recruitment package, he will not receive an award in 2005. However, in later years, Mr Foster will be entitled to participate in the 2005 Plan. Mr Gawler will not participate in the 2005 Plan. No awards will be made in the future under the Company's existing long-term incentive arrangements following the approval of the 2005 Plan. A more detailed explanation of the 2005 Plan is given in the Appendix to the notice of meeting.

Total Shareholder Return



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.

By order of the board
The Hon. James Bruce
 Chairman of the Remuneration Committee
 23 March 2005