Directors' remuneration report

Richard Davey
Senior Independent
Non-Executive Director
and Chairman of the
Remuneration Committee

Dear Shareholder

The Severn Trent Remuneration Committee reviews, on a regular basis, the operation and the overall market competitiveness of the total remuneration package for the executive directors. The most recent review showed that, in most respects, the remuneration policy remains appropriate for the company. The key conclusions reached by the committee during the year can be summarised as follows:

- A general policy of a zero increase for executive director base salaries will be adopted for 2009/10.
- The committee wished to address the market alignment of the Chief Executive's base salary, but the Chief Executive chose to decline an increase at this time.
- The annual bonus plan, linked to the company's 20 KPIs, continues to meet the operational needs of the business.
- To enhance the annual bonus plan, the committee has introduced a metric based on the performance of the Severn Trent Services business for the Chief Executive and Finance Director.
- Each of the executive directors will also have a proportion of their bonus linked to personal performance, specifically linked to the individual's contribution to the ongoing business change and transformation process and the programme for bringing forward our most talented people.
- Following the company having successfully addressed its immediate operational issues, the committee believes it is time to address the reward opportunity for executive directors' execution of the longer term strategy.

The committee is therefore seeking shareholder approval for the introduction of the Share Matching Plan at the AGM. This plan will provide for a matching award of shares over those shares which are acquired by a deferral of the annual bonus. The matching shares will be subject to a performance condition. The plan will also create a link between short term and long term performance, whereby good annual performance maximises the share matching opportunity, which will then only vest based on delivering similarly good long term performance. Further details of the proposed Share Matching Plan are set out later in this report.

Richard Davey
Chairman of the Remuneration Committee
28 May 2009

This report sets out the remuneration policy for the directors of Severn Trent Plc and discloses the amounts paid to them in the year ended 31 March 2009.

This report is subject to a shareholder vote and has been prepared in accordance with the requirements of the Companies Act 1985, Schedule 7A, and the principles of the Combined Code on Corporate Governance and best practice guidelines.

Remuneration Committee

The Remuneration Committee determines, on behalf of the board, the company's policy on the remuneration of executive directors and the Chairman of the board. The committee determines the total remuneration packages and contractual terms and conditions for these individuals. The committee is also consulted on the remuneration policy for the next band of senior executive managers. The policy framework for remunerating all senior executive managers is consistent with the approach taken for executive directors.

The committee is comprised exclusively of independent non-executive directors of the company, with the exception of Sir John Egan, the company Chairman, who was independent on his appointment to the board. The members of the committee during the year were:

- Richard Davey
- Dr Bernard Bulkin
- Sir John Egan
- Martin Houston (retired on 23 January 2009)

With the exception of Sir John Egan, the committee members have no personal financial interest, other than as shareholders, in the matters to be decided. As stated above, as company Chairman, Sir John Egan's fees are set by the committee and Sir John Egan is not party to this discussion. In setting performance related remuneration, the committee has regard to the provisions set out in Schedule A to the Combined Code.

Advisers

To ensure that the company's remuneration practices are market competitive, the committee has access to detailed external research on market data and trends from experienced specialist consultants.

The committee has received material advice from Hewitt New Bridge Street (a trading name of Hewitt Associates Ltd), which has been appointed by the committee for the purpose of providing this advice. Hewitt New Bridge Street, the principal adviser to the committee, has not provided any other services to the company.

The Chief Executive, Tony Wray, and the Human Resources Director, Alec Luhaste, also attended the meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary, Fiona Smith, acts as secretary to the committee.

The committee's terms of reference can be viewed on the company's website (www.severntrent.com) or requested from the Company Secretary (at the address on the back cover).

Remuneration Committee activity

During the year ended 31 March 2009, the Remuneration Committee met five times to discuss the key remuneration issues arising, the operation of the remuneration policy and the market updates by its advisers. The following table sets out what the Remuneration Committee covered at each of the meetings over the course of the year.

Date	Key agenda items
May 2008	Agree the vesting results for 2007/08 annual bonus plan and the 2005 LTIP awards
	Review the LTIP total shareholder return comparator group
July 2008	Approve the incentive plan targets for 2008/09
November 2008	Review of the Severn Trent remuneration policy for 2009 and beyond
	Incentive plan performance update
January 2009	Review of the market competitiveness of the executive directors' total remuneration package
	Incentive plan performance update
	Review the operation of the annual bonus plan and discuss proposals to introduce new additional performance metrics for the executive directors
	Consideration of the introduction of a Share Matching Plan
March 2009	Review of executive directors' salaries and review of the Chairman's fee
	Agree how the annual bonus scheme will operate in 2009/10
	Agree how the proposed Share Matching Plan will operate

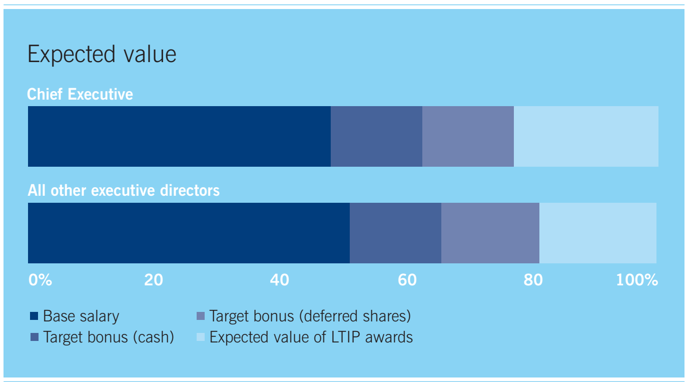
Remuneration policy

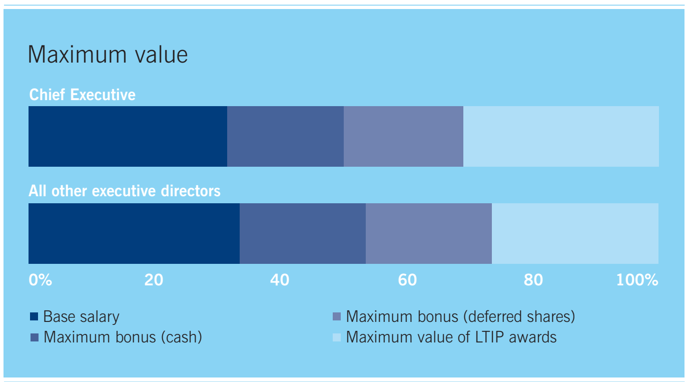
Each year, the committee reviews the remuneration policy for executive directors and other senior executive managers, taking into account both the external market and the company's strategic objectives over the short and the medium term.

The company's continuing remuneration policy for executive directors is to provide remuneration in a form and amount which will attract, retain, motivate and reward high calibre individuals. The remuneration package is based on the following principles:

Principle	Rationale
Incentives are aligned with the interests of shareholders and seek to reward the creation of long term value.	Executives must be adequately focused on the long term strategy and make decisions that lead to the creation of long term value.
Reward elements are designed to reinforce the link between performance and reward. Performance related elements should form a significant proportion of the total remuneration package and typically comprise at least 50% of total remuneration, if paid at the maximum.	The performance of the business is key and the package should be appropriately geared towards performance related pay. Below target levels of performance are not rewarded and the overall pay package is significantly reduced.
The total remuneration package for on target performance should be fully competitive, but not excessive, in the relevant market.	The committee wishes the executives to be appropriately remunerated for the challenges they face and ensure that the right structure and levels are in place to take the business forward.
Packages are structured flexibly to meet critical resource needs and retain key executives.	Package flexibility allows the committee to take decisive action with issues of recruitment and retention in the best interests of business continuity and shareholder value.

The charts below show, as a proportion of the package, firstly, the expected values of salary, bonus and long term incentives for target performance and, secondly, the maximum values of salary, bonus and long term incentives for the executive directors. The committee considers the mix between fixed and performance pay to be appropriate.





Personal shareholdings

The company operates shareholding guidelines under which executive directors are expected to build and maintain a minimum holding of shares in the company. The Chief Executive is expected to build and maintain a holding of shares to the value of 1.5 x base salary and other executive directors 1 x base salary. Executive directors are expected to retain at least half of the shares they receive through the Long Term Incentive Plan or other share based plans until they meet the guideline holdings within five years. If insufficient shares are awarded within five years then this timescale will be extended.

External directorships

Executive directors are encouraged to take on external non-executive directorships, though normally only one other FTSE 100 appointment. In order to avoid any conflicts of interest, all such appointments are subject to the approval of the Nominations Committee. Executive directors are normally only permitted to retain the fees arising from one such appointment.

Michael McKeon was appointed as a non-executive director of The Merchants Trust Plc on 1 May 2008 and in respect of the appointment for the year ended 31 March 2009 he was paid fees of £13,500. He has retained these fees in accordance with the above policy.

No other executive directors currently hold any external non-executive directorships.

Remuneration arrangements for executive directors

The remuneration arrangements for executive directors comprise the following elements:

- Base salary and benefits
- Annual bonus plan
- Long Term Incentive Plan (LTIP) and the proposed Share Matching Plan (SMP)
- Pension

Details of each of the above elements follow but the table below summarises the current packages of each of the executive directors:

Component	Tony Wray Chief Executive	Michael McKeon Finance Director	Tony Ballance Director of Regulation	Martin Kane Customer Relations Director	Andy Smith Director of Water Services
Base salary from 1 July 2009	£450,000	£425,000	£168,000	£210,000	£250,000
On target bonus (% of salary)	60%	60%	60%	60%	60%
Maximum bonus (% of salary)	120%	120%	120%	120%	120%
% of bonus earned deferred into shares	50%	50%	50%	50%	50%
2009 LTIP award (% of salary)	70%	50%	50%	50%	50%
2010 SMP award – maximum ratio of matching shares to deferred shares	0.5:1	0.5:1	0.5:1	0.5:1	0.5:1
Pension arrangement	Final salary occupational scheme	Cash allowance	Defined contribution scheme	Cash supplement	Final salary occupational scheme
Benefits	A car allowance, private medical insurance, life assurance and an incapacity benefits scheme				

Base salaries and benefits

Base salaries for individual directors are reviewed annually by the Remuneration Committee and take effect from 1 July. The company's policy is to set the salary for each executive director having regard to the market median for similar roles in publicly quoted companies of a comparable size and, so far as practicable, undertaking similar activities. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market and internal relativities.

The committee has given due consideration to the current economic climate, current market practice regarding executive salary reviews and the broader employee salary review policy at the company.

With this in mind, it has chosen to adopt a general zero increase policy for the base salaries of the executive directors at this time.

At the time of the Chief Executive's appointment, the committee gave a commitment to review his performance each year and if appropriate increase the base salary over time to align it with the market median (currently substantially higher). As the company and the Chief Executive have continued to perform well, the committee decided to increase his salary from £450,000 to £500,000. When this was presented to the Chief Executive he declined the offer of an increase at this time because he believed that it was not appropriate having regard to the salary constraints across the group. Accordingly, the Chief Executive's base salary will remain at £450,000 for the time being.

During 2008 Martin Kane had taken on a number of additional responsibilities and, accordingly, this has been reflected in a salary increase (from £185,000 to £210,000).

Executive directors' salaries for the financial year 2009/10 will be as follows:

Director	Salary
Tony Wray	£450,000
Michael McKeon	£425,000
Tony Ballance	£168,000
Martin Kane	£210,000
Andy Smith	£250,000

The non salary benefits for executive directors comprise:

- A car allowance
- Private medical insurance
- Life assurance
- An incapacity benefits scheme

Private medical insurance and some other benefits may be flexed under the company's flexible benefits scheme.

Annual bonus plan 2008/09

Executive directors are eligible for annual bonuses to encourage improved performance, with targets established by the committee to align executive directors' interests with shareholders. The annual bonus opportunity for all the executive directors was 120% of salary. For the achievement of target performance (which requires satisfaction of challenging KPI goals), 60% of salary would be earned.

Half of any bonus paid will be deferred into shares to be held for three years following payment. During the year the committee agreed to amend the treatment of the deferred shares should the executive leave. The revised treatment is as follows:

- If the executive is summarily dismissed without notice under his/her employment contract then the deferred bonuses are forfeited; and
- In all other cases of cessation of employment the deferred bonus is not lost and the shares automatically vest on the dealing day after the cessation of employment.

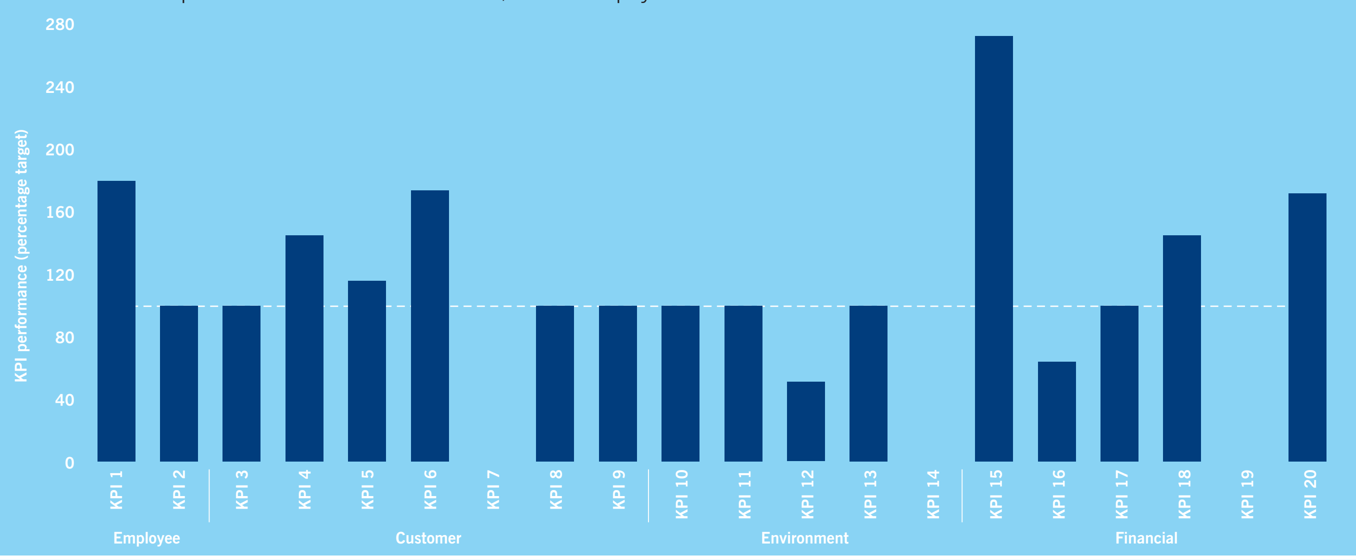
The rules of the annual bonus plan provide that the committee may reclaim ('clawback') some or all of the after tax part of any bonuses awarded to executive directors if it transpires that the bonus calculation was based on calculations which are subsequently demonstrated to be materially incorrect.

Annual bonus payments to executive directors are not pensionable.

The bonus out turn is operated by reference to a balanced scorecard of measures, based on the 20 KPIs outlined in the earlier KPI section. The plan attributes a points score to each KPI and bonus entitlement is determined by reference to the aggregate number of points achieved across all the KPIs. The targets taken together are considered by the board to have an impact on the longer term financial performance of the company and a number of them are reported to Ofwat.

The following table shows the level of performance attained under each of the 20 KPIs in relation to the 2008/09 annual bonus scheme. Overall the combined level of performance was above target. As a consequence, executive directors received a bonus payment of 61.8% of their bonus maximum. The actual bonus payments awarded to each director are contained in the table of emoluments on page 50.

Severn Trent KPI performance achieved for 2008/09 bonus payment



Annual bonus plan 2009/10

The committee has reviewed the operation of the plan and concluded that the same quantum should apply in respect of 2009/10 with a maximum bonus opportunity for all executive directors of 120% of salary and a target of 60%.

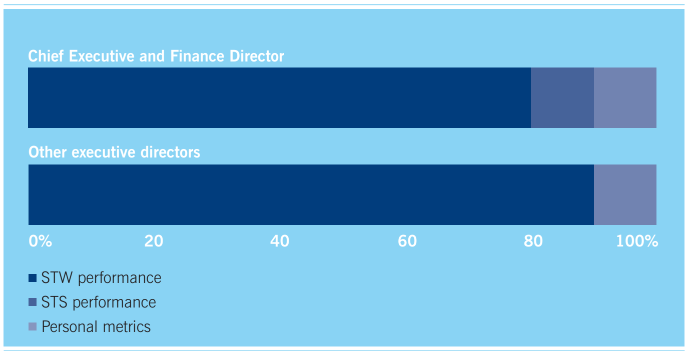
The committee believes that the use of all of the 20 Severn Trent Water KPIs continues to be both an effective and challenging annual bonus metric and meets the needs of the business. The KPIs cover the employee, customer, environment and financial aspects of the business.

The committee decided that it is important to link a proportion of the bonus to the performance of Severn Trent Services (STS) for those directors who oversee this business, namely the Chief Executive and the Finance Director. These individuals will have 10% of their bonus opportunity measured against the profit before interest and tax (before exceptional items) performance of Severn Trent Services, a measure which is a fully disclosed KPI of the Severn Trent Services business, as shown in the Business Review section. The measure would be actual versus budgeted profit, reflecting the desired growth of Severn Trent Services subject to adjustment by the committee based on its assessment.

For each executive director, the committee has decided to introduce a set of personal performance metrics into the annual bonus plan. The metrics would be more subjective in nature than the current measures and allow for more differentiation across the executive team, but will operate within the parameters of the existing plan. The metrics shall incorporate the following:

- Supporting the business change and transformation process – this measure will focus on the ongoing improvements to optimise the performance of the business. This will incorporate process improvements, technology and systems to support the processes and location, training and development of people to operate in the new environment.
- Developing people – this measure will focus on the individual's contribution to ensuring that the talent management processes help develop future leaders and therefore support succession planning and business continuity.

The following charts show how the 2009/10 annual bonus metrics are weighted for the executive directors:



Long term incentives

In early 2009, the committee reviewed the overall market competitiveness of the executive directors' total remuneration package. The conclusion was that, while for the most part the components of the remuneration package are working effectively and are aligned with policy, the relatively low emphasis on long term performance did not fully support the company's longer term strategy and this impacted the overall market competitiveness of the package.

To address this issue, the committee believes the most effective option is to introduce a Share Matching Plan for executive directors as this not only provides an enhanced long term incentive opportunity but also provides a link between short term and long term performance.

At the 2009 AGM, the committee is seeking shareholder approval to introduce the Severn Trent Share Matching Plan. The plan will allow executive directors to receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus plan.

Proposed Share Matching Plan

The first awards of matching shares would not be made until the 2009/10 annual bonus payouts are calculated and would be subject to a three year vesting period. The matching share award would be calculated using a share matching ratio in conjunction with the number of shares acquired by the annual bonus deferral. The maximum share matching ratio is 1:1, but for the first set of awards it is proposed that a ratio of 0.5 matching shares for every one deferred share be used.

The key features of the Share Matching Plan are summarised in the table below:

Key features	Description
Participants	Executive directors and members of the Executive Committee.
Form of award	Conditional share awards or nil cost options and any benefit ultimately delivered under the plan will not be pensionable.
Matching ratio	Maximum matching ratio will be 1:1, but the maximum match for first round of awards in 2009/10 will be 0.5:1.
Vesting period	Three years from the date of award.
Performance condition	The performance condition requires the company's Total Shareholder Return (TSR) to be measured relative to those companies ranked 51-150 in the FTSE Index by market capitalisation (excluding investment trusts). On this basis, 25% of the matching awards will vest at median performance and 100% will vest for performance in the upper quartile. In addition, for awards to vest, the Remuneration Committee must be satisfied that the TSR is reflective of the company's underlying performance. This replicates the LTIP performance condition.
Leavers	If the participant ceases employment with the company, the matching award will lapse unless the participant is deemed a 'good leaver'. Participants will be good leavers if they leave as a result of death, injury, disability, ill health, redundancy, retirement, the sale of their employing company or business or in such other circumstances as the Remuneration Committee sees fit (the same as under the LTIP rules). If a participant is a good leaver, their matching award will vest on cessation to the extent that the performance condition is satisfied at that time and subject to time pro-rating (although the Remuneration Committee can decide not to time pro-rate if it deems it appropriate).
Change of control	In the event of a change of control the matching awards will vest subject to the satisfaction of the performance condition and time pro-rating (although the Remuneration Committee can decide not to time pro-rate if it deems it appropriate).
Dividends	Participants will receive a dividend equivalent calculated in the same manner as under the LTIP.

Long Term Incentive Plan

At the 2005 AGM, shareholders approved the introduction of the Long Term Incentive Plan 2005 (LTIP 2005). Under the LTIP 2005, annual conditional awards of performance shares may be made to executive directors and senior staff, up to an annual maximum limit of shares worth 125% of base salary.

The number of shares subject to an award will increase to reflect dividends paid through the performance period on the basis of such notional dividends being reinvested at the then prevailing share price. Awards will normally vest as soon as the committee determines that the performance conditions have been met provided that the participant remains in employment at the end of the performance period.

2007, 2008 and 2009 LTIP awards

In 2008, LTIP awards of 50% of salary were made to the executive directors and 70% to the Chief Executive, Tony Wray. Although the committee has recently concluded that, to improve market alignment, there should be an increased emphasis on long term incentive opportunity, the LTIP awards for 2009 will remain at the same level as used in 2008 and the Share Matching Plan will be used to address this particular issue.

The vesting of awards made in 2007, 2008 and planned for 2009 will be subject to Total Shareholder Return (TSR), measured relative to those companies ranked 51-150 in the FTSE by market capitalisation (excluding investment trusts). This is considered to be the most suitable comparator group since the number of comparable regulated utilities against which to compare the company's performance remains too small to enable meaningful analysis. The FTSE 51-150 comparator group allows for the company's performance to be measured against a broader market without any one sector overly impacting the group.

The performance measures remain unchanged with 25% of awards vesting at median performance, and 100% vesting for performance in the upper quartile. In addition, for awards to vest, the committee must be satisfied that the company's TSR is reflective of the company's underlying performance.

After the end of the performance period, the performance condition will be measured and independently verified by Hewitt New Bridge Street on behalf of the committee.

2006 LTIP award

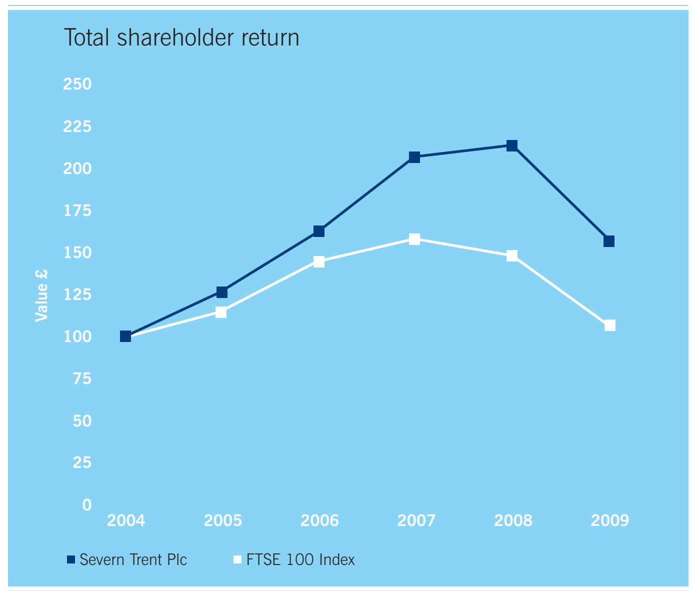
The performance condition applying to the 2006 awards is wholly dependent on Severn Trent's TSR relative to the following FTSE 100 'high yield' companies: AWG, BT Group, Centrica, Compass, Kelda, National Grid, Northumbrian Water, Pennon Group, Rentokil Initial, Scottish and Newcastle, Scottish and Southern Energy, Scottish Power and United Utilities. The committee has agreed to use Rexam, Tate & Lyle, Unilever and Cable & Wireless as substitutes for Scottish Power, Kelda, AWG and Scottish and Newcastle.

The performance period for the 2006 award ended on 31 March 2009 and the TSR result and the level of vesting achieved for this award is shown below:

LTIP award	Severn Trent TSR	Ranking	Vesting %
2006	12.6%	8.47 out of 13	0%

Performance graph

This graph shows the value, by 31 March 2009, of £100 invested in Severn Trent Plc on 31 March 2004 compared with the value of £100 invested in the FTSE 100 Index. The FTSE 100 was chosen as the comparator because the company is a constituent of that index. The intermediate points show the value at intervening financial year ends.



Source: Datastream

Below board remuneration

In 2008/09 there were eight executives immediately below board level who were paid salaries of between £100,000 and £250,000 per annum.

Salary £000	Number of executives
100-150	3
151-200	1
201-250	4

The below board level executives also participate in the same incentive arrangements as the executive directors. The annual bonus plan operates on the same terms as the executive directors with the exception that 33% of any bonus earned is deferred into shares and there is, other than for the President of Severn Trent Services, no Severn Trent Services performance metric. The LTIP operates and the proposed Share Matching Plan will operate on the same terms as for the executive directors.

All employee share plans

Through a variety of share schemes, employees are encouraged to hold shares in the company.

This includes an all employee Share Incentive Plan. Awards are currently made which include a performance condition based on achievement of the 20 KPIs. Employees of Severn Trent Plc and Severn Trent Water Limited participate in the plan.

For the year 2008/09, awards of shares to the value of £463 will be made to all eligible employees.

The company also offers an all employee HMRC approved SAYE plan on an annual basis and periodically reviews the use of other all employee incentive vehicles.

Hedging of awards

Details of the company's shares that are held in trust on behalf of participants of certain of the employee share schemes are given on pages 52 and 53. In respect of the LTIPs and the proposed Share Matching Plan the company's policy is to purchase, and hold in trust, 50% of the total number of shares that could potentially vest from all outstanding LTIP awards. The requirement to purchase shares is calculated, and the purchase carried out, shortly after each annual award.

In respect of awards made under the company's Share Incentive Plan, all the shares taken up by employees at each invitation are normally purchased and placed in trust immediately.

The company grants SAYE options over unissued shares, always operating within the dilution limits contained in the scheme rules.

The committee is satisfied that the overall dilution limits provide sufficient headroom for all the company's share schemes.

Pensions

Of the current executive directors, Andy Smith and Tony Wray participate in the Severn Trent Pension Scheme. The scheme is a funded HMRC registered final salary occupational pension scheme which provides:

- A normal retirement age of 60 years
- An overall pension at normal retirement age of two thirds of final pensionable salary, which for executive directors is defined as base salary only, subject to the completion of 20 years' pensionable service
- Life cover of 4 x pensionable earnings
- A pension payable in the event of retirement on grounds of ill health
- A dependant's pension on death of two thirds of the member's pension

Andy Smith and Tony Wray participate up to the level of the scheme specific earnings cap which in 2008/09 was £117,600. They are provided with a cash supplement in lieu of pension entitlement above this scheme cap at 40% of their respective salaries.

Members' contributions are payable at the rate of 6% of pensionable earnings. Early retirement is available after the age of 50 with the consent of the company. Any pension would be subject to a reduction that the Trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. In the event of incapacity, early retirement is available on an unreduced basis allowing for pensionable service to age 60.

Under the Trust Deed and Rules, pensions in payment in excess of any Guaranteed Minimum Pension are guaranteed to increase in line with price inflation subject to a maximum of 5% each year. In the calculation of individual cash equivalent transfer values, allowance is made for such increases.

As disclosed in last year's remuneration report, the company reviewed its pension policy for directors and employees as a result of the Pensions Act 2004, Finance Act 2004 and the results of the triennial valuation of two of its main schemes during 2004. As a result of this review, new executives are offered an allowance, expressed as a percentage of base salary, to fund their own pension provision. The individual is able to choose whether the allowance is paid to the company's registered defined contribution scheme, taken as cash or paid to a personal pension arrangement. This reflects the wish of the committee to remove future exposure to defined benefit schemes for senior executives. The new arrangements apply to Michael McKeon at 40% of base salary.

Martin Kane is a member of the Severn Trent Pension Scheme (WPS Section) but opted out of the scheme in June 2007. He receives a cash supplement of 30% of his basic salary in lieu of accrual for future service from that date. While he no longer accrues additional years of service for pension purposes, consistent with the legislation, Mr Kane's accrued benefits generally continue to be linked to his final salary (or £161,000 plus RPI from 30 June 2007 to the date of his retirement, if higher) and scheme benefits are preserved in relation to ill health, retirement and death in service. His normal retirement age is 65 although early retirement is possible prior to age 65 with the consent of the company, but any benefits relating to service accruing after 1 December 2006 would be subject to an actuarial reduction.

Tony Ballance is a member of the Severn Trent Pension Scheme (Pension Choices section) which is the company's defined contribution scheme. Dr Ballance currently contributes 3% of salary and the company contributes at 30%, plus a further 2.5% in respect of death in service and ill health benefits. The normal retirement age for the scheme is 65 although retirement prior to 65 is possible with the consent of the company.

Directors' service agreements and letters of appointment

A model service contract was approved by the committee in 2004 and updated during 2007/08. The main terms of the contracts are summarised in the table below:

Provision	Policy
Notice period	12 months from either party.
Termination payment	Maximum payment in the case of redundancy or termination in breach of the agreement by the company of up to and capped at 175% of base salary which is calculated as a conservative estimate of the value of salary, fixed benefits and on target bonus. Any payment will not include amounts in respect of awards which have been made under the company's Long Term Incentive Plan over which the committee retains discretion.
Mitigation	Any termination payment will not be made automatically but will be subject to both phasing and mitigation unless, in the circumstances, the committee considers it appropriate to achieve a clean break through payment of a lump sum, in which case it will require some discount for early payment.
Change of control	There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the company.
Contract dates	

Executive directors	Date of agreement	Effective date
Tony Wray	20 May 2008	7 March 2005
Michael McKeon	6 December 2005	13 December 2005
Tony Ballance	2 June 2008	23 July 2005
Martin Kane	2 June 2008	30 September 1975
Andy Smith	2 June 2008	1 January 2005

The committee believes that the contracts provide as much scope as is feasible to protect the interests of shareholders when negotiating a termination, at which time it would address the duty of mitigation.

Tony Wray and Tony Ballance are subject to reappointment as executive directors at the forthcoming AGM.

Chairman and other non-executive directors

The remuneration policy for non-executive directors, other than the Chairman, is determined by the board, within the limits set out in the articles of association.

Remuneration for non-executive directors, other than the Chairman, comprises an annual fee for acting as a non-executive director of the company and additional fees for the senior independent director and chairmanship or membership of the committees. The annual fee was increased to £42,500 in 2008/09, from £40,000. The additional fees have remained the same and can be summarised as follows:

	Senior independent director	Audit Committee		Remuneration Committee		Corporate Responsibility Committee		Nominations Committee
		Chairman	Member	Chairman	Member	Chairman	Member	
Additional fee per annum	£10,000	£15,000	£3,000	£15,000	£3,000	£10,000	£3,000	No fee paid

During 2008, Sir John Egan was paid fees of £250,000 for his role as Chairman, increasing from £230,000 paid for the prior year. He does not receive any additional fees for committee memberships. Sir John is provided with a company car but does not participate in any of the company's pension arrangements, share or bonus schemes.

As explained in last year's report, from 1 April 2008 the board decided to cease requiring directors to take a proportion of their fees in shares and, instead, now leaves decisions regarding the holding of shares to individual non-executive directors.

Non-executive directors do not participate in share or bonus schemes, nor is any pension provision made.

Non-executive directors normally serve three terms of three years. They do not have service contracts but their terms of engagement are regulated by letters of appointment, details of which are shown below:

Chairman and non-executive directors	Initial appointment	Current appointment	Current expiry date*
Sir John Egan	1 October 2004	1 January 2008	31 December 2010
Bernard Bulkin	1 January 2006	1 January 2009	31 December 2011
Richard Davey	1 January 2006	1 January 2009	31 December 2011
Gordon Fryett	1 July 2009	1 July 2009	30 June 2012
Martin Lamb	29 February 2008	29 February 2008	28 February 2011
Baroness Noakes	29 February 2008	29 February 2008	28 February 2011

* subject to the requirements of the company's articles of association for the reappointment of directors at AGMs.

Sir John Egan is subject to reappointment as a non-executive director at the 2009 AGM. In addition, Gordon Fryett will stand for election as a non-executive director having been appointed to the board since last year's AGM.

The text and tables that follow comprise the auditable part of the Directors' remuneration report, being the information required by the UKLA Listing Rules 9.8.6 and 9.8.8.

Directors' emoluments

		Basic salary and fees					
		Cash £000	BIKs[1] £000	Annual bonus[2] £000	Other[3] £000	**Total 2008/09 £000**	Total 2007/08 £000
Chairman and other non-executive directors							
Sir John Egan (Chairman)		250.0	26.4	–	–	**276.4**	256.3
Dr Bernard Bulkin		58.5	–	–	–	**58.5**	56.0
Richard Davey		70.5	–	–	0.4	**70.9**	68.8
Martin Houston	(left 23.1.09)	37.9	–	–	–	**37.9**	43.0
Martin Lamb	(app 29.2.08)	42.5	–	–	–	**42.5**	3.4
Baroness Noakes	(app 29.2.08)	57.5	–	–	0.3	**57.8**	4.8
John Smith	(left 29.2.08)	–	–	–	–	**–**	50.4
Executive directors							
Tony Ballance	(app 2.10.07)	166.0	8.2	124.6	13.5	**312.3**	130.9
Martin Kane	(app 2.10.07)	182.5	3.0	137.2	69.9	**392.6**	160.1
Michael McKeon		418.8	3.6	315.2	15.1	**752.7**	586.2
Andy Smith	(app 2.10.07)	247.5	3.6	185.4	67.1	**503.6**	204.8
Tony Wray		440.0	3.6	333.7	144.0	**921.3**	620.5
Rachel Brydon-Jannetta[4]	(left 29.12.06)	–	–	–	–	**–**	102.0
Colin Matthews	(left 2.10.07)	–	–	–	–	**–**	1,669.7
		1,971.7	48.4	1,096.1	310.3	**3,426.5**	3,956.9

1 Benefits in kind received by Sir John Egan comprise the use of a company car. Benefits in kind for executive directors include a car allowance, private medical insurance, life assurance and an incapacity benefits scheme.

2 The directors receive 50% of their bonus in cash and 50% is deferred into shares to be held for three years.

3 Other emoluments include: expenses chargeable to income tax, car allowances, travel allowances, relocation expenses, telephone allowances, payments made under the group's flexible benefit arrangements, amounts paid in lieu of pension contributions. Included in other emoluments are:
- Richard Davey – expenses chargeable to income tax £399.
- Tony Ballance – flexible benefits payments £4,226, car allowance £9,286 and taxable expenses £11.
- Martin Kane – amounts received in lieu of pension contributions £54,750, car allowance £15,000, flexible benefits payments £134 and taxable expenses £8.
- Michael McKeon – car allowance £15,000 and taxable expenses £122.
- Andy Smith – amounts received in lieu of pension contributions £51,960, car allowance £15,000 and taxable expenses £125.
- Tony Wray – amounts received in lieu of pension contributions £128,960, car allowance £15,000 and taxable expenses £11.
- Baroness Noakes – expenses chargeable to income tax £281.

4 Represents amounts paid under an agreement settled in 2006/07.

Directors' pension provisions

	Service completed in years (including in transferred in service credits)	Accrued pension at 31.03.09 £pa	Increase in accrued pension during the year £pa	Increase in accrued pension during the year (net of inflation) £pa	Transfer value of accrued pension at 31.03.09 £000	Transfer value of accrued pension at 31.03.08 £000	Increase/(decrease) in transfer value over the year, net of directors' contributions £000
Martin Kane	35	108,592	12,463	7,656	995.5	829.6	165.9
Andy Smith	4	16,647	4,430	3,819	154.8	109.5	38.2
Tony Wray	4	15,949	4,411	3,834	141.3	97.7	36.5

	Accrued pension at 31.03.09 £pa	Increase in accrued pension during the year £pa	Increase/(decrease) in accrued pension during the year (net of inflation) £pa	Transfer value of increase in accrued benefits net of directors' contributions £000
Martin Kane	108,592	12,463	7,656	114.3
Andy Smith	16,647	4,430	3,819	34.1
Tony Wray	15,949	4,411	3,834	32.0

The following contributions were paid to defined contribution pension arrangements in respect of directors:

	2009	2008
Tony Ballance	**59,978**	26,000
Michael McKeon	**167,500**	157,000

Directors' share interests

The directors of the company at 31 March 2009 and their beneficial interests in the shares of the company were as follows:

i) Beneficial holdings

	At 1 April 2008 (or date of appointment if later) Number of ordinary shares of $97^{17}/_{19}$p each	At 31 March 2009 (or date of retirement if earlier) Number of ordinary shares of $97^{17}/_{19}$p each	At 26 May 2009 Number of ordinary shares of $97^{17}/_{19}$p each
Chairman and other non-executive directors			
Sir John Egan (Chairman)	7,610	7,610	7,610
Dr Bernard Bulkin	554	554	554
Richard Davey	588	588	588
Martin Lamb	12	3,012	3,012
Baroness Noakes	18	4,018	4,018
Executive directors			
Tony Ballance	–	1,985	1,985
Martin Kane[1]	5,292	7,915	8,142
Michael McKeon	–	20	20
Andy Smith	–	4,034	4,034
Tony Wray[2]	–	5,874	7,010

1 Martin Kane acquired 227 shares on 1 May 2009 following the exercise of his 2006 three year sharesave scheme option.
2 Tony Wray acquired 1,136 shares on 1 May 2009 following the exercise of his 2006 three year sharesave scheme option.

ii) Long Term Incentive Plan

The executive directors have further interests in the company's ordinary shares of $97^{17}/_{19}$p each by virtue of having received contingent awards of shares under the Severn Trent Plc Long Term Incentive Plan (LTIP). The LTIP operates on a three year rolling basis. The Severn Trent Employee Share Ownership Trust is operated in conjunction with the LTIP. Awards do not vest until they have been held in trust for three years and specific performance criteria have been satisfied.

Executive directors have a technical interest in 613,457 shares held by the Employee Share Ownership Trust. The details of the performance criteria are explained on page 46 of the Directors' remuneration report. The individual interests, for the above named directors and for the directors who left during the year, which represent the maximum aggregate number of shares to which each individual could become entitled, are as follows:

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards as at 31 March 2009 or earlier date of leaving
Tony Ballance	5 September 2005	6,025	3,013	3,012	–
	19 June 2006	4,782	–	–	4,782
	18 July 2007	3,261	–	–	3,261
	14 July 2008[1]	5,486	–	–	5,486
Martin Kane	5 September 2005	5,897	2,949	2,948	–
	19 June 2006	4,680	–	–	4,680
	18 July 2007	3,475	–	–	3,475
	14 July 2008[1]	6,001	–	–	6,001
Michael McKeon	19 June 2006[2]	36,405	–	–	36,405
	19 June 2006	30,118	–	–	30,118
	18 July 2007	12,363	–	–	12,363
	14 July 2008[1]	13,717	–	–	13,717
Andy Smith	5 September 2005	12,307	6,154	6,153	–
	19 June 2006	12,210	–	–	12,210
	18 July 2007	5,881	–	–	5,881
	14 July 2008[1]	8,230	–	–	8,230
Tony Wray	5 September 2005	17,948	8,974	8,974	–
	19 June 2006	22,385	–	–	22,385
	18 July 2007	9,189	–	–	9,189
	14 July 2008[1]	19,684	–	–	19,684

1 The market price on the date of the 2008 award was 1287p.

2 Michael McKeon received an additional LTIP award in 2006 in accordance with commitments made by the company upon appointment. The award was made pursuant to the exemption provided in Listing Rule 9.4.2.

No further awards have been made under the LTIP as at 28 May 2009.

As disclosed last year, the committee determined that the targets applying to the 2005 awards were met to the extent that participants are entitled to 50% of the award.

The performance period for awards granted on 19 June 2006 ended on 31 March 2009. The committee has subsequently determined, based on the company's Total Shareholder Return target over the three year performance period, that none of the award vests.

iii) Annual Bonus Plan

Half of any bonus paid in 2008 and onwards is deferred into shares. The table below shows the directors' deferred share awards and the vesting dates.

	Date of grant	Annual bonus deferred into shares	Number of shares	Deferred share award vests
Tony Ballance	27 June 2008	£24,554	1,818	26 June 2011
Martin Kane	27 June 2008	£26,425	1,957	26 June 2011
Michael McKeon	27 June 2008	£85,666	6,345	26 June 2011
Andy Smith	27 June 2008	£37,732	2,794	26 June 2011
Tony Wray	27 June 2008	£76,029	5,631	26 June 2011

iv) Sharesave options over ordinary shares

	At the start of the year or subsequent date of appointment (No. of shares)	Exercised during the year (No. of shares)	Cancelled during the year (No. of shares)	Granted during the year (No. of shares)	At the end of the year or earlier date of leaving (No. of shares)	Year of grant of option	Exercise price (p)	Date from which exercisable	Expiry date
Sharesave[1]									
Tony Ballance	–	–	–	556	556	2009	862	May 2012	Oct 2012
Martin Kane	306	306	–	–	–	2003	536	May 2008	Oct 2008
	374	374	–	–	–	2005	759	May 2008	Oct 2008
	227	–	–	–	227	2006	823	May 2009	Oct 2009
	322	–	–	–	322	2007	1172	May 2010	Oct 2010
	314	–	–	–	314	2008	1221	May 2011	Oct 2011
	–	–	–	222	222	2009	862	May 2012	Oct 2012
Michael McKeon	1,499	–	1,499	–	–	2007	1172	May 2014	Oct 2014
	–	–	–	1,943	1,943	2009	862	May 2014	Oct 2014
Andy Smith	1,136	–	–	–	1,136	2006	823	May 2009	Oct 2009
Tony Wray	1,136	–	–	–	1,136	2006	823	May 2009	Oct 2009

1 The executive directors, in common with all eligible UK employees of the group, are entitled to participate in the company's Inland Revenue approved Sharesave Scheme. The terms and conditions applicable to these options are those provided in that scheme. The options have no performance conditions as such conditions are not permitted by legislation.

a No executive share options in respect of executive directors were granted or lapsed during the year. At 31 March 2009 there were nine other executives participating in the group's historic executive Share Option Scheme (2008/09).

b At the close of business on 31 March 2009 the mid-market price of the company's shares was 990p (31 March 2008: 1419p) and the range during the year was 953.5p to 1503p.

c On 9 October 2006 Severn Trent Plc's ordinary shares of $65^{5}/_{19}$p were consolidated into Ordinary shares of $97^{17}/_{19}$p. No adjustment was made to the shares awarded under the LTIP or granted under the Sharesave Scheme. LTIP awards made prior to the consolidation will vest over Ordinary shares of $97^{17}/_{19}$p and Sharesave options granted prior to the consolidation will be exercised over Ordinary shares of $97^{17}/_{19}$p.

Signed on behalf of the board which approved the Directors' remuneration report on 28 May 2009.

Richard Davey.

Richard Davey
Chairman of the Remuneration Committee