

Governance

Directors' remuneration report



Richard Davey
Chairman of the Remuneration Committee

The Remuneration Committee assists the board by focusing on the activities detailed below, reporting to the board on decisions and actions taken, and making any necessary recommendations:

- the remuneration policy and its application to the CE and executives reporting to the CE;
- the adoption of annual and longer term incentive plans;
- determination of levels of reward to the CE and approval of reward to executives reporting to the CE;
- setting the Chairman's fee; and
- the communication to shareholders on remuneration policy and the committee's work on behalf of the board.

The full terms of reference for the committee can be found on the company's website (www.severntrent.com) and are also available from the Company Secretary.

Dear Shareholder

This report provides details of the role of the Remuneration Committee and the work it has undertaken during the year.

It also 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 2010.

This report is subject to a shareholder vote and has been prepared in accordance with the requirements of the Companies Act 2006, the principles of the Combined Code on Corporate Governance and best practice guidelines.

A resolution to approve the Directors' remuneration report will be proposed at the AGM.

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 Remuneration Committee are Dr Bernard Bulkin, Sir John Egan, Martin Lamb and me.

Remuneration Committee attendance in 2009/10

Richard Davey	4/4
Dr Bernard Bulkin	4/4
Sir John Egan	4/4
Martin Lamb (appointed to Committee 22 January 2010)	1/1

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 he 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 committee 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.

Remuneration Committee activity

During the year ended 31 March 2010, the Remuneration Committee met four times to discuss the key remuneration issues arising, the operation of the remuneration policy and

Governance – Directors' remuneration report (continued)

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 2009	<p>Agree the vesting results for 2008/09 annual bonus scheme and the 2006 LTIP awards</p> <p>Approve the incentive plan targets for 2009/10 including the setting of personal targets for the annual bonus scheme</p>
November 2009	<p>Review of the executive pay environment in 2009 and the challenges facing Severn Trent, the issues raised by the UK tax changes and the expectations for 2010</p> <p>Incentive plan performance update</p>
January 2010	<p>Review of the market competitiveness of the executive directors' total remuneration package</p> <p>Review of how the annual bonus scheme will operate in 2010/11</p> <p>Review of the appropriateness of the total shareholder return performance condition for Severn Trent long term incentive plan awards, in particular the impact of the water industry AMP periods, the choice of comparator group and alternative approaches</p> <p>Review of the executive directors' shareholding requirements</p>
March 2010	<p>Review of director service agreement best practice</p> <p>Incentive plan performance update</p> <p>Review of the Chairman's fee</p> <p>Review of the committee's terms of reference</p>

The 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:

- In 2009/10, a general policy of a zero increase for executive director base salaries was adopted, in line with the broader employee salary review policy at the time. For 2010/11, having regard to current economic conditions and the policy for broader employees, a general policy of 2% increase for executive director base salaries will be adopted.
- The committee continued to review the market alignment of the Chief Executive's base salary. The £50,000 increase proposed last year was turned down by the Chief Executive having regard to the salary constraints across the group at the time. However, the committee agreed that it was important to address this issue again this year and, accordingly, will increase the Chief Executive's base salary from £450,000 to £500,000 for 2010/11.
- The annual bonus scheme, linked to the company's KPIs, continues to meet the operational needs of the business.
- Additional metrics based on the performance of the Severn Trent Services business will continue to apply to the Chief Executive and Finance Director.
- To address the reward opportunity for executive directors' execution of the longer term strategy and following approval from shareholders, the committee introduced the Share Matching Plan. This plan will provide for a matching contingent award of shares over those shares which are acquired by a deferral of the annual bonus. The matching shares will be subject to a total shareholder return performance condition. The first awards will be made in 2010.

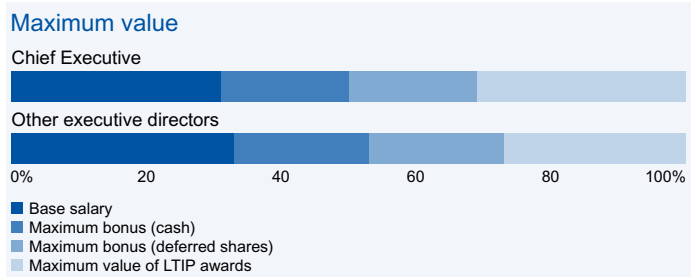
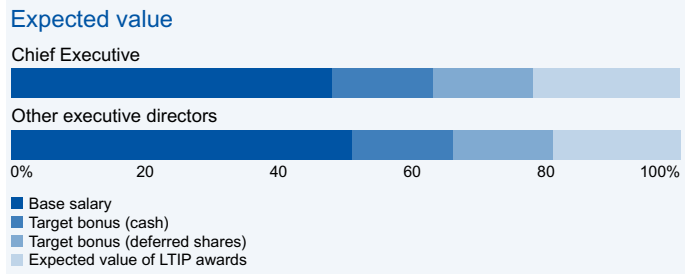
Remuneration policy

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.
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 and other share based plans until they meet the guideline holdings within five years. Over the past five years, the executive directors have received insufficient shares from the vesting of their share plan awards to reach their required holdings. As a result, the committee has agreed to extend this time period for a further two years.

External directorships

Executive directors are permitted 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 2010 he was paid fees of £18,000. He has retained these fees in accordance with the above policy.

His appointment as Chairman of the Audit Committee of The Merchants Trust Plc on 11 May 2010 will increase his fees to £21,000 in 2010/11.

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

Governance – Directors' remuneration report (continued)

Remuneration arrangements for executive directors

The remuneration arrangements for executive directors comprise the following elements:

- Base salary and benefits
- Annual bonus scheme
- Long Term Incentive Plan (LTIP) and the 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 Strategy and Regulation	Martin Kane Director of Customer Relations	Andy Smith Director of Water Services
Base salary from 1 July 2010	£500,000	£433,500	£196,300	£214,200	£255,000
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%
2010 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 and practice in other water companies. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market and internal relativities.

The committee gives 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 adopted a policy of a zero increase for the base salaries of the executive directors in 2009/10. For 2010/11, against a backdrop of economic recovery, it has chosen to adopt a policy of 2% increase for the base salaries of the executive directors.

At the time of the Chief Executive's appointment, his salary reflected the fact that he was new to the role and, accordingly, 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. Last year, the Chief Executive declined the proposed £50,000 increase, having regard to the salary constraints across the group at the time. This year, the committee agreed that the Chief Executive's base salary should again be reviewed, giving due consideration to both the market alignment and the internal relativity between the executive directors. Accordingly, the Chief Executive's base salary will be increased from £450,000 to £500,000 for 2010/11.

Tony Ballance has taken on a number of additional responsibilities during 2009/10 and, accordingly, this has been reflected in a salary increase (from £168,000 to £196,300).

Executive directors' salaries for the financial year 2010/11 will be as follows:

Director	Salary
Tony Wray	£500,000
Michael McKeon	£433,500
Tony Ballance	£196,300
Martin Kane	£214,200
Andy Smith	£255,000

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 scheme 2009/10

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 goals), 60% of salary would be earned.

The bonus scheme operates by reference to the Severn Trent Water KPIs, with the Chief Executive and Finance Director also having a proportion of their bonus linked to the performance of Severn Trent Services. In addition, each director has 10% of their bonus opportunity measured against a set of personal performance metrics.

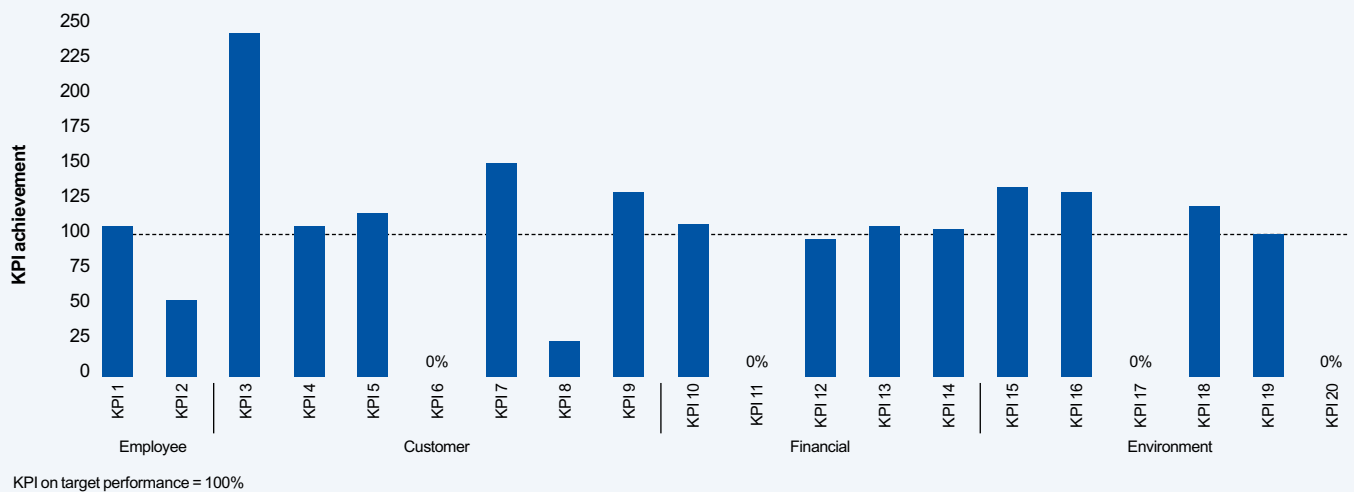
Half of any bonus paid will be deferred into shares to be held for three years following payment. If the executive is summarily dismissed without notice under his/her employment contract then the deferred bonuses are forfeited. In all other cases of cessation of employment the deferred bonus is not lost and the shares automatically vest on the dealing day after the cessation of employment.

The rules of the annual bonus scheme 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 outturn in respect of STW performance is operated by reference to a balanced scorecard of measures, based on the 20 KPIs outlined in the earlier KPI section on pages 10 to 11. 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.

Severn Trent KPI achievement for the 2009/10 annual bonus payment



The table above shows the level of performance attained under each of the 20 KPIs in relation to the 2009/10 annual bonus scheme. The performance improvements over the year, as measured by the KPIs, resulted in a bonus award of 45.6% of the Severn Trent Water portion for the executive directors. The actual bonus payments awarded to each director are contained in the table of emoluments on page 54.

Annual bonus scheme 2010/11

The committee has reviewed the operation of the plan and concluded that the same quantum should apply in respect of 2010/11 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 the 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.

As outlined in the earlier KPI section, the Severn Trent Water KPIs have been revised as a result of entering the new five year AMP period. For 2010/11, the committee has chosen to use 18 of the 20 KPIs for the annual bonus scheme during the period of transition. It will review the use of KPIs again next year.

The Chief Executive and Finance Director will also continue to have a proportion of their bonus linked to the performance of Severn

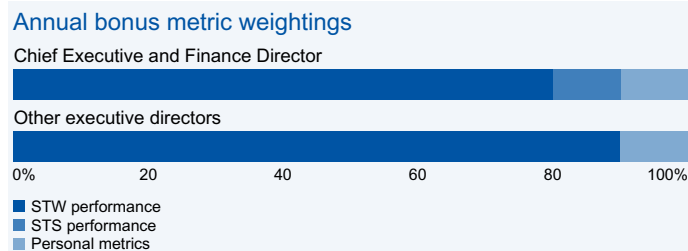
Trent Services. These individuals will have 10% of their bonus opportunity measured against the profit before interest and tax (before exceptional items) performance of Severn Trent Services, a measure which is a fully disclosed KPI of the Severn Trent Services business, as shown in the Business review section. The measure will be actual versus budgeted profit, reflecting the desired growth of Severn Trent Services subject to adjustment by the committee based on its assessment of performance.

Each executive director has 10% of their bonus opportunity measured against a set of personal performance metrics. The metrics are more subjective in nature than the current measures and allow for more differentiation across the executive team, but operate within the parameters of the plan. The metrics incorporate the following:

- supporting the business change and transformation process – this measure focuses 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 focuses on the individual's contribution to ensuring that the talent management processes help develop future leaders and therefore support succession planning and business continuity.

Governance – Directors' remuneration report (continued)

The following charts show how the 2010/11 annual bonus metrics are weighted for the executive directors:



Long term incentives

In 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.

A Share Matching Plan was introduced for executive directors following shareholder approval at the 2009 AGM. This not only provides an enhanced long term incentive opportunity but also provides a link between short term and long term performance.

During 2010, the committee intends to review the measurement of long term performance at Severn Trent and identify what, if any, measures other than Total Shareholder Return (TSR) would make effective metrics for the long term incentive plans, giving due consideration to the regulatory nature of the business and the impact of the AMP period.

Share Matching Plan

The plan allows executive directors to receive matching share awards over those shares which have been acquired under the deferred share component of the annual bonus scheme.

The first awards of matching shares will be made following the calculation of the 2009/10 annual bonus payouts and will be subject to a three year vesting period. The matching share award is 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 a ratio of 0.5 matching shares for every one deferred share will be used.

The performance condition requires the company's 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 for the 2010 award.

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.

Long Term Incentive Plan

The current Long Term Incentive Plan (LTIP) was approved by shareholders at the 2005 AGM. Under the LTIP, 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.

2008, 2009 and 2010 LTIP awards

In 2009, LTIP awards of 50% of salary were made to the executive directors and 70% of salary to the Chief Executive.

The vesting of awards made in 2008, 2009 and planned for 2010 will be subject to 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.

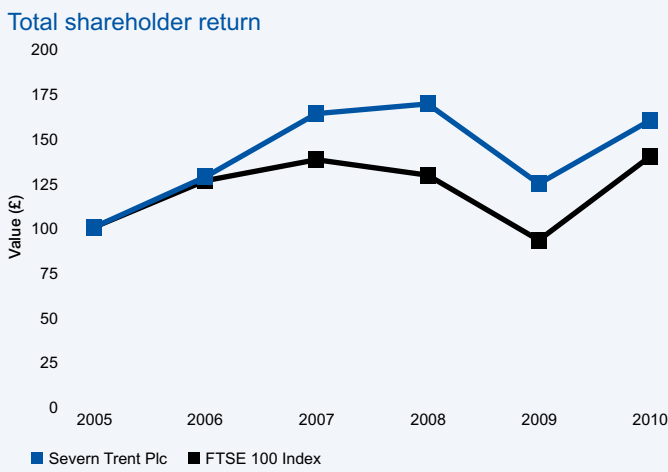
2007 LTIP award

The performance period for the 2007 award ended on 31 March 2010. The award was subject to TSR, measured relative to those companies ranked 51–150 in the FTSE by market capitalisation (excluding investment trusts). Those companies which delisted during the performance period were removed from the comparator group. The TSR result and the level of vesting achieved for this award is shown below:

LTIP award	Ranking	Vesting %
2007	33 out of 85	60.3%

Performance graph

This graph shows the value, by 31 March 2010, of £100 invested in Severn Trent Plc on 31 March 2005 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.



Below board remuneration

In 2009/10 there were nine executives immediately below board level who were paid salaries of between £100,000 and £300,000 per annum.

Salary £000	Number of executives
100–150	3
151–200	1
201–250	4
251–300	1

The below board level executives also participate in the same incentive arrangements as the executive directors. The annual bonus scheme 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 and the Share Matching Plan 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 2009/10, awards of shares to the value of £342 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 56 and 57. In respect of the LTIPs, deferred share awards (under the Annual Bonus Scheme) and the 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 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; and
- a dependant's pension on death of two thirds of the member's pension.



ifs ProShare award winner

Severn Trent's Share Incentive Plan won the 'Best overall performance in fostering employee share ownership' award in December 2009.

The *ifs ProShare* annual awards recognise and promote best practice in the employee share plans industry. The award judges – independent figures from the Financial

Services Authority, employee share ownership and reward industries, and members of the Institute of Chartered Secretaries said, "With a clear link to corporate objectives, impressive communication methods backed up by weekly emails from the Chief Executive and the high levels of take up, Severn Trent can feel justifiably proud of what it has achieved."

Governance – Directors' remuneration report (continued)

Andy Smith and Tony Wray participate up to the level of the scheme specific earnings cap which in 2009/10 was £123,600. 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 55 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.

It is the policy of the committee to offer new executives 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. These 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, Martin 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. He 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	<p>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</p> <p>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</p>																		
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	<table border="1"> <thead> <tr> <th>Executive directors</th> <th>Date of agreement</th> <th>Effective date</th> </tr> </thead> <tbody> <tr> <td>Tony Wray</td> <td>20 May 2008</td> <td>7 March 2005</td> </tr> <tr> <td>Michael McKeon</td> <td>6 December 2005</td> <td>13 December 2005</td> </tr> <tr> <td>Tony Ballance</td> <td>2 June 2008</td> <td>23 July 2005</td> </tr> <tr> <td>Martin Kane</td> <td>2 June 2008</td> <td>30 September 1975</td> </tr> <tr> <td>Andy Smith</td> <td>2 June 2008</td> <td>1 January 2005</td> </tr> </tbody> </table>	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
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.

The committee recognises that, in line with current best practice guidelines, any termination payment should be based upon an estimate of salary and fixed benefits only. Accordingly, the committee will adopt this policy in the service agreements of future executive directors.

Martin Kane and Andy Smith are subject to reappointment as 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, which was last increased in 2008, will be increased to £43,350 in 2010/11, from £42,500. 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 2009, Sir John Egan was paid fees of £250,000 for his role as Chairman. He does not receive any additional fees for committee memberships. Sir John is provided with a car allowance but does not participate in any of the company's pension arrangements, share or bonus schemes.

Andrew Duff was appointed to the board on 10 May 2010 and will receive a fee of £250,000 per annum for this role. He will not receive any additional fees for committee memberships, nor will he participate in any of the company's pension arrangements, share or bonus schemes.

The board does not require directors to take a proportion of their fees in shares and, instead, 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
Andrew Duff	10 May 2010	10 May 2010	9 May 2013
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

Andrew Duff, Martin Lamb and Baroness Noakes are subject to reappointment as directors at the 2010 AGM.

Governance – Directors' remuneration report (continued)

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				Total 2009/10 £000	Total 2008/09 £000
	Cash £000	BIKs £000	Annual bonus ¹ £000	Other ² £000		
Chairman and other non-executive directors						
Sir John Egan (Chairman)	250.0	–	–	12.5	262.5	276.4
Dr Bernard Bulkin	58.5	–	–	0.1	58.6	58.5
Richard Davey	70.5	–	–	0.1	70.6	70.9
Gordon Fryett	34.1	–	–	–	34.1	–
Martin Houston	–	–	–	–	–	37.9
Martin Lamb	43.1	–	–	–	43.1	42.5
Baroness Noakes	57.5	–	–	–	57.5	57.8
Executive directors						
Tony Ballance	168.0	2.9	102.9	17.7	291.5	312.3
Martin Kane	203.8	2.6	128.6	76.3	411.3	392.6
Michael McKeon	425.0	4.3	257.4	15.1	701.8	752.7
Andy Smith	250.0	3.0	151.6	65.6	470.2	503.6
Tony Wray	450.0	4.5	278.0	145.6	878.1	921.3
	2,010.5	17.3	918.5	333.0	3,279.3	3,426.5

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

2 Other emoluments include expenses chargeable to income tax, car allowances, travel allowances, telephone allowances, payments made under the group's flexible benefits arrangements and amounts paid in lieu of pension contributions. Included in other emoluments are:

- Sir John Egan car allowance £12,500.
- Dr Bernard Bulkin expenses £55.
- Richard Davey expenses £69.
- Tony Ballance flexible benefits payments £2,670 and car allowance £15,000.
- Martin Kane pension supplement £61,125, flexible benefits payments £121, car allowance £15,000 and expenses £12.
- Michael McKeon car allowance £15,000 and expenses £113.
- Andy Smith pension supplement £50,560, car allowance £15,000 and expenses £75.
- Tony Wray pension supplement £130,560 and car allowance £15,000.

Directors' pension provisions

Name	Service completed in years (including transferred in service credits)	Accrued pension at 31 March 2010 £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 March 2010 £000	Transfer value of accrued pension at 31 March 2009 £000	Increase/ (decrease) in transfer value over the year, net of directors' contributions £000
Martin Kane	35	121,236	12,644	8,626	1,751.2	995.5	755.7
Andy Smith	5	21,616	4,969	4,353	328.9	154.8	166.7
Tony Wray	5	20,882	4,933	4,343	303.7	141.3	155.0

Name	Accrued pension at 31 March 2010 £pa	Increase in accrued pension during the year £pa	Increase in accrued pension during the year (net of inflation) £pa	Transfer value of accrued benefits net of directors' contributions £000
Martin Kane	121,236	12,644	8,626	179.0
Andy Smith	21,616	4,969	4,353	68.2
Tony Wray	20,882	4,933	4,343	64.4

Notes:

Relevant directors confirmed by Severn Trent Plc.

Accrued pension figures and transfer value calculations provided by Towers Watson.

There have been no changes to the transfer value basis since last year's disclosures.

Allowance has been made for changes in market conditions over the year by applying the relevant Market Value Adjustment.

Inflation figure used in respect of year is to February 2010 (3.7%) as the latest available figure prior to the year end.

September 2008 figure had been used last year (5.0%). If September 2009 had been used then this would have shown negative inflation (-1.4%).

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

	2010	2009
Tony Ballance	59,640	59,978
Michael McKeon	170,000	167,500

Directors' share interests

The directors of the company at 31 March 2010 and their beneficial interests in the shares of the company were as follows:

i) Beneficial holdings

	At 1 April 2009 (or date of appointment if later) Number of ordinary shares of 97 ^{1/16} p each	At 31 March 2010 Number of ordinary shares of 97 ^{1/16} p each	At 24 May 2010 Number of ordinary shares of 97 ^{1/16} p each
Chairman and other non-executive directors			
Sir John Egan (Chairman)	7,610	12,160	12,160
Dr Bernard Bulkin	554	554	554
Richard Davey	588	588	588
Martin Lamb	3,012	3,012	3,012
Baroness Noakes	4,018	4,018	4,018
Gordon Fryett	–	1,000	1,000
Executive directors			
Tony Ballance	1,985	2,032	2,032
Martin Kane ¹	7,915	8,189	8,511
Michael McKeon	20	67	67
Andy Smith	4,034	5,217	5,217
Tony Wray	5,874	7,057	7,057

1 Martin Kane acquired 322 shares on 4 May 2010 following the exercise of his 2007 three year Sharesave scheme option

Governance – Directors' remuneration report (continued)

ii) Long Term Incentive Plan

The executive directors have further interests in the company's ordinary shares of 97¹⁷/₁₉p 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 606,609 shares held by the Employee Share Ownership Trust. The details of the performance criteria are explained on page 50 of this 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 2010
Tony Ballance	19 June 2006	4,782	–	4,782	–
	18 July 2007	3,261	–	–	3,261
	14 July 2008	5,486	–	–	5,486
	7 July 2009 ¹	7,405	–	–	7,405
Martin Kane	19 June 2006	4,680	–	4,680	–
	18 July 2007	3,475	–	–	3,475
	14 July 2008	6,001	–	–	6,001
	7 July 2009 ¹	8,154	–	–	8,154
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	13,717	–	–	13,717
	7 July 2009 ¹	18,733	–	–	18,733
Andy Smith	19 June 2006	12,210	–	12,210	–
	18 July 2007	5,881	–	–	5,881
	14 July 2008	8,230	–	–	8,230
	7 July 2009 ¹	11,019	–	–	11,019
Tony Wray	19 June 2006	22,385	–	22,385	–
	18 July 2007	9,189	–	–	9,189
	14 July 2008	19,684	–	–	19,684
	7 July 2009 ¹	27,769	–	–	27,769

¹ The market price on the date of the 2009 award was 1046p

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 27 May 2010.

As disclosed last year, the committee determined that the targets applying to the 2006 awards were not met and that none of the awards vested.

The performance period for awards granted on 18 July 2007 ended on 31 March 2010. The committee has subsequently determined, based on the company's TSR target over the three year performance period, that participants are entitled to 60.3% of the award. As at 27 May 2010 the shares from the 2007 contingent award had not vested but would do so as soon as practicable.

iii) Annual Bonus Scheme

From 2008 onwards, half of any bonus paid 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
	7 July 2009	£62,294	5,669	6 July 2012
Martin Kane	27 June 2008	£26,425	1,957	26 June 2011
	7 July 2009	£68,598	6,243	6 July 2012
Michael McKeon	27 June 2008	£85,667	6,345	26 June 2011
	7 July 2009	£157,590	14,343	6 July 2012
Andy Smith	27 June 2008	£37,732	2,794	26 June 2011
	7 July 2009	£92,700	8,437	6 July 2012
Tony Wray	27 June 2008	£76,029	5,631	26 June 2011
	7 July 2009	£166,860	15,187	6 July 2012

iv) Sharesave options over ordinary shares

	At the start of the year (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 (No. of shares)	Year of grant of option	Exercise price (p)	Date from which exercisable	Expiry date
Sharesave¹									
Tony Ballance	556	–	–	–	556	2009	862	May 2012	Oct 2012
	–	–	–	561	561	2010	808	May 2013	Oct 2013
Martin Kane	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
	–	–	–	449	449	2010	808	May 2013	Oct 2013
Michael McKeon	1,943	–	–	–	1,943	2009	862	May 2014	Oct 2014
Andy Smith	1,136	1,136	–	–	–	2006	823	May 2009	Oct 2009
	–	–	–	1,123	1,123	2010	808	May 2013	Oct 2013
Tony Wray	1,136	1,136	–	–	–	2006	823	May 2009	Oct 2009
	–	–	–	1,123	1,123	2010	808	May 2013	Oct 2013


1 The executive directors, in common with all eligible UK employees of the group, are entitled to participate in the company's HMRC 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 2010 there were five other executives participating in the group's historical executive Share Option Scheme (31 March 2009: nine other executives).

b) At the close of business on 31 March 2010 the mid-market price of the company's shares was 1195p and the range during the year was 933p to 1215p.

Signed on behalf of the board which approved the Directors' remuneration report on 27 May 2010.



Richard Davey
Chairman of the Remuneration Committee