

21 June 2002

Severn Trent Plc
2297 Coventry Road
Birmingham B26 3PU
Tel 0121 722 4000
Fax 0121 722 4800
www.severntrent.com

Dear Shareholder

I am pleased to enclose a copy of the company's Annual Report and Accounts or Annual Review and Summary Financial Statement for the year ended 31 March 2002, together with the Notice of Annual General Meeting and Form of Proxy.

This year, the Annual General Meeting will be held at the Royal Centre in Nottingham on Friday 26 July 2002 at 2.30pm. A location map and directions for this new venue are included.

In addition to the routine AGM business, you will be asked to vote on the company's remuneration report and a copy of the report is appended to the Notice.

We are also seeking your approval to resolutions relating to the Political Parties, Elections and Referendums Act 2000, which came into force last year. Whilst we currently make no donations to political parties, and have no intention of doing so in the future, this technical approval has become necessary as a result of the new legislation, which defines political donations to cover a number of business activities that would not normally be thought of as political donations.

Even if you are not able to come to the AGM in person, your vote is still important and I would ask you to complete, sign and return the accompanying Form of Proxy. Alternatively you can register your proxy appointment and voting instructions electronically. Details of this facility are given on page 5 of the Notice.

If you are coming to the AGM please bring your Form of Proxy with you. This will help identify you as a shareholder and ensure that you are admitted swiftly to the meeting. If you have completed and returned your Form of Proxy you may, of course, still attend the meeting and your status as a shareholder will be confirmed at the entrance.

You may also wish to note that the company offers shareholders the facility to receive communications by email. If you wish to take advantage of this service for future mailings you may register your request on our registrar's website at www.shareview.co.uk.

Yours sincerely,



David Arculus
Chairman

Severn Trent Plc

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the thirteenth Annual General Meeting of Severn Trent Plc (the 'company') will be held at the Royal Centre, Theatre Square, Nottingham NG1 5ND on 26 July 2002 at 2.30pm for the following purposes:

To propose the following resolutions as Ordinary Resolutions

Resolution 1

To receive the Report of the Directors and the audited accounts for the year ended 31 March 2002.

Resolution 2

To declare a final dividend in respect of the year ended 31 March 2002 of 28.56 pence net for each ordinary share of 65⁵/₁₉ pence.

Resolution 3

To reappoint Mr M J Bettington, who retires by rotation, as a Director of the company.

Resolution 4

To reappoint Mr M C Flower, who retires by rotation, as a Director of the company.

Resolution 5

To reappoint Ms M L Cassoni, who has been appointed since the last Annual General Meeting, as a Director of the company.

Resolution 6

To reappoint Mr A S Perelman, who has been appointed since the last Annual General Meeting, as a Director of the company.

Resolution 7

THAT Messrs PricewaterhouseCoopers be reappointed auditors of the company, to hold office until the conclusion of the next general meeting at which accounts are laid before the company and that their remuneration be determined by the Directors.

Resolution 8

That the company be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended) (the 'Act') to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

(a) the maximum sums which may be donated to EU political organisations and incurred in respect of EU political expenditure shall together not exceed £50,000;

(b) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting; and

(c) The company may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking may be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

Notice of Annual General Meeting continued

Resolution 9

That the company's subsidiary, Severn Trent Water Limited, be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended) (the 'Act') to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

- (a) the maximum sums which may be donated to EU political organisations and incurred in respect of EU political expenditure shall together not exceed £50,000;
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting; and
- (c) Severn Trent Water Limited may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking may be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

Resolution 10

That the company's subsidiary Biffa Waste Services Limited be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended) (the 'Act') to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

- (a) the maximum sums which may be donated to EU political organisations and incurred in respect of EU political expenditure shall together not exceed £25,000;
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting; and
- (c) Biffa Waste Services Limited may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking may be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

Resolution 11

That the company's subsidiary Biffa Waste Services SA be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended) (the 'Act') to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

- (a) the maximum sums which may be donated to EU political organisations and incurred in respect of EU political expenditure shall together not exceed £25,000;
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting; and
- (c) Biffa Waste Services SA may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking may be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

Resolution 12

That the company's subsidiary Severn Trent Services Limited be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended) (the 'Act') to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

- (a) the maximum sums which may be donated to EU political organisations and incurred in respect of EU political expenditure shall together not exceed £25,000;
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting; and
- (c) Severn Trent Services Limited may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking may be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

Resolution 13

THAT the remuneration report set out on pages 28 to 30 of the Annual Report and Accounts for the year ended 31 March 2002, a copy of which is appended to this Notice, be approved.

To propose the following resolutions as Special Resolutions

Resolution 14

THAT the Directors are authorised in accordance with Section 95 of the Companies Act 1985 to allot equity securities for cash without first offering those equity securities to existing shareholders as required by Section 89 of the Companies Act 1985. This power will last until the next Annual General Meeting but it will end on 25 October 2003 if the next Annual General Meeting has not been held by then. During this period the maximum amount of equity securities which can be allotted under the power, other than in connection with a rights issue, is £11,202,900.

Resolution 15

THAT the company is authorised generally and without conditions to make market purchases (as defined in section 163 of the Companies Act 1985) of its ordinary shares of 65⁵/₁₉ pence each, but:

the company may not purchase more than 34,331,470 ordinary shares;

the company may not pay less than 65⁵/₁₉ pence for each ordinary share;

the company may not pay, in respect of each ordinary share, more than 5% over the average of the middle market price of the ordinary shares based on the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the company buys the shares;

This authority will last from today until the company's next Annual General Meeting, but it will end on 25 October 2003 if the next Annual General Meeting has not been held by then; and

the company may agree, before the authority ends, to purchase ordinary shares where the purchase is or may be completed (fully or partly) after the authority ends.

Registered Office:
2297 Coventry Road
Birmingham B26 3PU

By Order of the Board
P P Davies LL.B Solicitor
Group General Counsel and Company Secretary

Registered in England and Wales No. 2366619

11 June 2002

Explanatory notes

Annual Report and Accounts (Resolution 1)

The Directors must lay before the Annual General Meeting the accounts of the company for the financial year ended 31 March 2002, the Report of the Directors and the report of the auditors of the company on those accounts.

Declaration of a dividend (Resolution 2)

A final dividend of 28.56 pence net per ordinary share is recommended by the Directors for payment to ordinary shareholders who are on the register of members at the close of business on 28 June 2002. It is proposed that shareholders declare this dividend by passing this resolution. A final dividend can only be declared by the shareholders at a general meeting but it must not exceed the amount recommended by the Directors. If so declared the date of payment of the final dividend will be 1 October 2002.

Election of Directors (Resolutions 3, 4, 5 and 6)

The company's Articles of Association require all Directors to submit themselves for reappointment at least every three years. This provision also ensures that, as a minimum, one third of the Board of Directors, together with any Director appointed since the last Annual General Meeting, retires each year and, if they are eligible and so desire, stand for reappointment at the Annual General Meeting. Directors retire on the basis of their length of service since their last election.

Messrs Bettington and Flower retire on the basis of length of service since their last election while Ms Cassoni and Mr Perelman retire having been appointed since the last Annual General Meeting. All four Directors, being eligible, offer themselves for reappointment.

Details of the Directors seeking reappointment may be found on pages 20 and 21 of the company's Annual Report and Accounts or pages 16 and 17 of the Annual Review for 2002.

Reappointment and remuneration of auditors (Resolution 7)

The company is required to appoint auditors at each general meeting at which accounts are laid before the company, to hold office until the next such meeting. Resolution 7 proposes the reappointment of PricewaterhouseCoopers as auditors of the company and authorises the Directors to determine the level of their remuneration.

Political Parties, Elections and Referendums Act 2000 (the 'Act') (Resolutions 8, 9, 10, 11 and 12)

It is the company's policy not to make any donations to political parties and the Board does not intend to change that policy. The Act came into force in February 2001 and includes very broad definitions of political donations and expenditure which may have the effect of covering a number of normal business activities that would not be thought to be political donations in the generally accepted sense. This could, for example, include support for bodies engaged in law reform or government policy review, involvement in seminars or functions that may be attended by politicians and job exchanges between industry and government.

The Department of Trade and Industry is expected to issue guidelines in due course to clarify the definitions contained in the Act. In the meantime, in order to avoid any possibility of inadvertently contravening the Act, the Board consider that it would be prudent to follow the procedure specified in the Act to obtain shareholder approval to incur a level of expenditure to cover all these activities. Resolutions 8, 9, 10, 11 and 12 seek authority to incur total expenditure of £175,000 by the company and its principal operating subsidiary companies in the forthcoming year. The Board will not use this authority to make any political donations as that expression would have been understood before the Act became law.

Approval of remuneration report (Resolution 13)

Under the Financial Services Authority Combined Code, the Board are required to address, on an annual basis, whether or not there is an issue in respect of Directors' remuneration that needs to be brought to the attention of the shareholders at the Annual General Meeting. Whilst there are no such issues the Board have carefully considered the matter and, in the light of good corporate governance, best practice and transparency, they have decided that shareholders should be asked to approve the remuneration report as set out on pages 28 to 30 of the Annual Report and Accounts for 2002, a copy of which is appended to this Notice.

Disapplication of statutory pre-emption right (Resolution 14)

This special resolution, if passed, will renew the Directors' power to issue equity securities for cash without having to offer these securities to existing shareholders first, as is required by section 89 of the Companies Act 1985. Equity securities are ordinary shares in the company but they do not include shares which are allotted under employee share schemes. By exempting the company from the rule in section 89, the Directors will have greater flexibility to raise finance.

A rights issue would involve the company offering existing shareholders the opportunity to buy new ordinary shares. The number of ordinary shares, which a shareholder can buy, depends on the number he/she already owns. The rules in some countries prevent shareholders from participating in a rights issue and this resolution allows the Directors to make alternative arrangements for those shareholders.

Authority for the company to purchase its own shares (Resolution 15)

This special resolution is proposed to renew the authority granted at the company's last Annual General Meeting. If passed, it will allow the company to buy back up to 34,331,470 of its ordinary shares on the London Stock Exchange. At present, there are just over 343 million ordinary shares held by the company's shareholders so this authority covers about 10% of the issued share capital. The resolution sets out the lowest and highest prices that the company can pay for the shares.

The Directors are committed to managing the company's capital effectively and purchasing the company's own ordinary shares is one of the options that the Directors keep under constant review. The Directors will only purchase the company's own ordinary shares if they believe it is in the shareholders' best interest and will increase earnings per share. In general terms, earnings per share is the amount of the company's profit after tax divided by the number of ordinary shares held by the company's ordinary shareholders.

Electronic proxy voting

Shareholders may register the appointment of a proxy for this Annual General Meeting electronically by contacting the www.sharevote.co.uk website, where full details of the procedure are given. That website is operated by the company's registrar, Lloyds TSB Registrars. Shareholders are advised to read the terms and conditions relating to the use of this facility before appointing a proxy. These terms and conditions may be viewed on the website. Any electronic communication sent by a shareholder that is found to contain a computer virus will not be accepted. Electronic communication facilities are available to all shareholders and those who use them will not be disadvantaged in any way.

General notes

A member entitled to attend and to vote at the meeting is entitled to appoint one or more proxies to attend the meeting, and any adjournment thereof, and, on a poll, vote instead of him/her. A proxy need not be a member of the company. A Form of Proxy is enclosed with this Notice.

Forms of Proxy should be deposited at the office of the registrar, Lloyds TSB Registrars, The Causeway, Worthing BN99 6AA not less than 48 hours before the time for holding the meeting.

An employee whose shares are held by the Trustee under the Severn Trent Share Schemes is not entitled to attend the meeting in respect of those shares but will be able to attend general meetings by virtue of those shares when the shares are registered in his/her own name. The employee can, however, in the meantime instruct the Trustee how to vote on his/her behalf on any resolution set out in the Notice should the resolution be put to a formal vote at the meeting on a poll. A voting direction form will be sent to those employees concerned. Voting direction forms should be returned to the address on the reverse of the form so as to be received not later than 2.30pm on 19 July 2002. The foregoing does not apply to any shares held by an employee which are registered in his/her name.

To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast) a person must have their name entered on the register of members no later than 6.00pm on 24 July 2002. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.

A summary of the business carried out and of the voting results at the meeting will be available on request from the Company Secretary, Severn Trent Plc, 2297 Coventry Road, Birmingham B26 3PU after the meeting has been held. This information will also be published on the company's website (www.severntrent.com).

How to fill in the Form of Proxy

You can appoint the Chairman of the meeting or any other person as your proxy. If you wish to appoint someone other than the Chairman as your proxy, you should cross out the words 'the Chairman of the Meeting or' and write in the name and address of your proxy. A proxy need not be a member of the company.

The resolutions on the Form of Proxy are as numbered in this Notice. You can instruct your proxy how to vote on each resolution set out on the Form of Proxy on which a poll is taken by ticking the appropriate box against each resolution to show whether your proxy is to vote for or against it. You do not have to vote all your shares the same way.

Your proxy may vote or abstain as he or she chooses on any resolution on which you do not give instructions how to vote, and, unless instructed otherwise, on any additional business (including amendments to resolutions) which may properly come before the meeting.

The Form of Proxy, and any power of attorney or other authority under which it is executed (or a copy of any such power or authority certified notarially) should be returned to the address on the back of the form not less than 48 hours before the time of the holding of the meeting.

If the appointor is a corporation, the Form of Proxy should be executed under its common seal or signed on its behalf by an officer, attorney or other person duly authorised by the corporation. The appropriate power of attorney or other authority should be returned with the form.

In the case of joint holders only one need sign the Form of Proxy.

If you are planning to attend the meeting please bring the Form of Proxy with you to the meeting. Your personalised Form of Proxy will help identify you as a shareholder and may therefore be used as an Admission Form. This will help to speed up the admission process. If you have completed and returned your Form of Proxy you can, of course, still attend and vote at the meeting. Your status as a shareholder will be confirmed at the entrance.

Guidance on completing the Form of Direction

The shares which were allocated to you in August 1999 and/or July 2000 and/or July 2001 under the Severn Trent Share Schemes (the 'Schemes') are held on your behalf by the Trustee, Severn Trent Water Share Scheme Trustees Limited.

As a member of the Schemes you are entitled to direct the Trustee how to vote on a poll on your behalf at the meeting, and at any adjournment thereof, by completing the Form of Direction.

The resolutions on the Form of Direction are as numbered in this Notice.

If you wish to direct the Trustee how to vote on a poll on your behalf you may do so by placing a tick in the appropriate box 'For' or 'Against' in respect of each resolution. If all the members of the Schemes direct the Trustee to vote either 'For' or 'Against' a resolution, the Trustee may vote on that resolution on a show of hands. Otherwise the Trustee may only vote on a poll. The Trustee is not obliged to call for a poll.

Sign the completed Form of Direction and return it to the address on the reverse of the form so that it is received no later than 2.30pm on 19 July 2002.

If the Form of Direction is returned, in the absence of instructions, the Trustee may vote or abstain from voting as it thinks fit on the specified resolutions and, unless instructed to the contrary, on any other business (including amendments to resolutions) which may properly come before the meeting. If the Form of Direction is not returned, the Trustee will not vote on your behalf.

The Form of Direction relates only to the shares held on your behalf by the Trustee. If, in addition, you hold shares which: a) you have purchased or b) were released to you from Trust, you will receive a Form of Proxy relating to those shares. You are entitled to complete and return both the Form of Proxy and the Form of Direction.

Remuneration Report

The Remuneration Committee ('the Committee') of the Board comprises the following non-executive Directors:

M C Flower (Chairman), T D G Arculus and Dr J D G McAdam.

The Committee's role is to determine the remuneration policy and levels of pay and employment benefits for the executive Directors of Severn Trent Plc. The Committee does not deal with the fees payable to non-executive Directors, including the Chairman, for which the Board has the sole determination.

The Committee considers that the company has complied with the principles set out in the Financial Services Authority Combined Code ('the Code') concerning the Remuneration Committee's composition and operation.

In carrying out its responsibilities, the Committee receives professional advice from Andersen. This arrangement has been reviewed and confirmed during the current year.

1 Remuneration policy

The policy of the Committee is to determine, and regularly review and update, as appropriate, a framework within which total remuneration packages for executive Directors can be considered. The aims of the policy are to remunerate executive Directors at levels appropriate to the scope and complexity of their roles and having regard to performance as well as recognising the need to be competitive with businesses of similar size, complexity and geographical spread. The company seeks to attract, retain and motivate the highest quality of management for the ongoing efficient running and development of the company, taking into account the interests of shareholders, customers, employees and the local community. In framing its remuneration policy the company has given full consideration to Schedule A of the Code.

2 Service contracts

The service contracts of most of the existing executive Directors have been amended and are now terminable by the company giving not less than 12 months' written notice (other than in the case of new appointments from outside the group where the contract has given an initial entitlement to a 24 month notice period reducing to 12 months at the end of the first year of service) and by the Directors giving not less than six months' notice of termination. This approach has been applied in the appointment of Mr A S Perelman. This is in line with the recommendations of the Code and is considered compatible with the need to attract and retain the highest calibre of executive Director.

In the cases of Directors who previously had written notice periods in excess of 12 months, contractual terms have been put in place which define levels of compensation payments that might be payable in the event of early termination.

In the case of Mr R A S Costin, whilst the Committee decided that he should retain his two-year contract he resigned as a Director of the company in December 2001. Compensation for the balance of his contract only was paid. All current executive Directors are now on 12 month contracts, except for the initial transitional arrangements following the appointment of Mr A S Perelman.

The contracts for the executive Directors do not contain provision for any payments or for termination in the situation of a change in control.

Mr M J Bettington and Mr A S Perelman are the subject of reappointment as executive Directors at the Annual General Meeting and the Committee believes that their extensive knowledge and experience fully justify the continuation of the contractual arrangements which are outlined above.

3 Executive Directors

i Basic salary and benefits

The Committee has received independent advice on the appropriate level of salaries for executive Directors which takes into account the need to attract, retain and motivate executive Directors as well as maintaining the competitive position of the company within the market. The table of Directors' emoluments, in paragraph 5 of this report, shows the basic fees and salaries of executive Directors for the financial year ended 31 March 2002.

Remuneration Report continued

The Committee has balanced the need to continue to pay salaries designed to attract, retain and motivate executive Directors with a requirement to be responsible and prudent in the interest of shareholders as well as having regard to the general level of inflation. The Committee recognises that it has a responsibility to shareholders to ensure salary and benefit levels remain competitive for the sectors in which the company operates. To fulfil this obligation advice is sought from Andersen in the light of developments such as the completion of the integration of UK Waste and the general expansion of the company's activities. Notwithstanding this the Committee will ensure that remuneration levels continue to reflect a prudent and responsible approach to executives' pay.

The principal benefits for executive Directors include the use of a motor car, fuel, private medical insurance, life assurance and an incapacity benefits scheme. In January 2002 the executive Directors were allowed to 'flex' these benefits under the company's Lifestyle scheme. As they are flexing within the same value of overall package their individual choices are not reflected in the table of Directors' emoluments in paragraph 5 of this report.

ii Performance related annual bonus

Executive Directors are eligible for annual bonuses to encourage improved performance, measured by reference to both financial and non-financial factors. Performance targets are established to align Directors' interests with shareholders and are measured by reference to profitability, together with specific targets for quality, service, environmental performance and the achievement of personal objectives. Benchmarks to monitor overall performance are established at the beginning of each year under review. Financial performance accounts for 60% of the bonus potential and the balance is dependent on performance in respect of the remaining factors. The performance requirements are stretching and involve an assessment of up to ten parameters for each executive Director. The maximum amount payable under the bonus scheme in 2001/2002 was 50% of basic salary (2000/2001: 40%) the additional 10% only being awarded for superior financial performance. The actual bonuses awarded for the year ended 31 March 2002 are shown in the table of Directors' emoluments in paragraph 5 of this report.

iii Long-term incentives

A Long Term Incentive Plan ('LTIP') for executive Directors was approved by shareholders at the 1997 Annual General Meeting and amended with shareholder approval at the 2001 Annual General Meeting.

Performance for the 1999 and 2000 LTIPs is measured only by reference to Total Shareholder Return ('TSR') over a three-year period compared to the TSR of similar privatised utility companies. The performance for the 2001 LTIP is measured by reference to a combination of TSR and Economic Profit ('EP') targets.

The maximum allocation that may be made to an individual Director in any year is such number of shares as have a market value equal to 100% of basic salary. Shares are allocated annually by the Committee but are not released to executive Directors for a period of three years thereafter, provided that the TSR has achieved a prescribed ranking in comparison with the other companies and, in the case of the 2001 LTIP, that the EP targets have also been met. An allocation of shares equivalent to 50% of salary was awarded to executive Directors and other senior executives for the performance periods effective from 1 April 1999 and 1 April 2000. For the performance period effective from 1 April 2001 Mr Walker received an allocation of shares equivalent to 100% of his salary and the remaining executive Directors received allocations equivalent to 70% of their salaries. The performance criteria are specific to each of the Awards and changes in the number of comparator companies have been necessary as a result of consolidation and merger activity in the privatised utility sectors and because of differing regulatory regimes. The 1999 and 2000 Awards are based on a comparator table of 11 companies, the 2001 Award, which has additional EP targets, includes six comparators. No shares are released for comparator TSR performance below the median. Neither the Chairman nor the other non-executive Directors participate in the LTIP.

iv Pensions

The company's policy is to offer all executive Directors membership of the Senior Staff Pension Scheme ('the Scheme'). The total number of current executive Directors who participate in the Scheme is five.

This Scheme is a funded Inland Revenue approved 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 subject to the completion of 20 years' pensionable service;
- life cover of 4 x pensionable earnings;
- pension payable in the event of retirement on grounds of ill health;
- a spouse's pension on death.

As previously reported the bonus element of pensionable earnings is in the process of being phased out.

The company has a future obligation in respect of Mr R A S Costin, Mr R M Walker, and Mr A S Perelman who joined this Scheme after 1 June 1989 and are therefore subject to the Inland Revenue earnings cap (2001/2002: £95,400), to pay the difference between their pension entitlement based upon the relevant portion of their salary and the maximum amount payable had the cap not been in place. The obligation is unfunded. The amount charged to the profit and loss account in the year for this future obligation was £213,900 for Mr Costin, £245,532 for Mr Walker, and £80,110 for Mr Perelman.

The Committee decided that in cases of executive Directors where the employees' pension contribution based on their actual annual salary exceeds the Inland Revenue Limit (15% of pension cap) the executive Director would only be required to contribute up to the Inland Revenue Limit although their pension would still be based on their actual earnings.

A table detailing the Directors' pension provisions as required by the Code is shown in paragraph 5 of this report.

4 Chairman and other non-executive Directors

Mr T D G Arculus became Chairman of the company on 29 July 1998 and is paid fees of £100,000 (£120,000 with effect from 1 August 2001, £117,600 with effect from 1 January 2002) per annum. In addition, the company contributes £26,280 (£28,680 with effect from 1 January 2002) per annum to Mr Arculus's private pension arrangements as well as providing a driver's allowance, private health scheme insurance and car provision. In addition Mr Arculus receives with effect from 1 August 2001 a further fee of £10,000 per annum paid in the form of shares in the company.

Mr Arculus does not participate in any of the company's pension arrangements, share or bonus schemes or have the benefit of the provision of fuel for the car.

The other non-executive Directors are paid fees which are reviewed from time to time by the Board. They were last increased in 1995. With effect from 1 August 2001 they are set at £27,500 per annum with £25,000 being paid in cash and £2,500 being paid in the form of shares in the company. In addition non-executive Directors who chair Committees of the Board, or act as a trustee to the company's pension schemes receive an additional fee of £2,500 (£5,000 with effect from 1 August 2001) per annum and the senior independent non-executive Director receives £2,250 per annum. Non-executive Directors who are appointed as non-executive Directors of subsidiary companies receive an additional fee of £10,000 per annum for each such appointment. Non-executive Directors do not participate in any incentive plan nor is any pension provision made for them except as mentioned above in relation to the Chairman. The non-executive Directors do not have service contracts or consultancy agreements with any group company.

Remuneration Report continued

5 Directors' emoluments

The emoluments of the Chairman, the executive Directors and fees payable to the non-executive Directors are as follows:

	Basic salary and fees ³ £000	Benefits in kind £000	Annual bonus £000	Other ¹ £000	Total 2001/2002 £000	Total 2000/2001 £000
Chairman and other non-executive Directors						
T D G Arculus	119.5	15.7	–	5.7	140.9	115.2
E E Anstee	30.9	–	–	0.6	31.5	29.3
M L Cassoni (from 1.9.01)	16.0	–	–	–	16.0	–
M C Flower	40.9	–	–	–	40.9	29.5
J D G McAdam	26.7	–	–	–	26.7	13.5
F A Osborn	50.9	–	–	–	50.9	36.3
A H Simon	33.1	–	–	0.7	33.8	30.3
C Tritton	31.1	–	–	–	31.1	28.0
Executive Directors						
J K Banyard	162.2	16.1	61.6	0.4	240.3	227.9
M J Bettington	211.2	15.2	55.6	–	282.0	273.5
V Cocker (retired 30.10.00)	–	–	–	–	–	181.2
R A S Costin (retired 21.12.01)	139.5	16.0	59.0	0.1	214.6	263.9
B Duckworth	216.3	15.7	82.2	0.1	314.3	300.5
A S Perelman (from 1.10.01)	165.0	12.5	82.5	76.8	336.8	–
R M Walker ²	356.0	23.9	112.7	0.1	492.7	414.4
Total emoluments	1,599.3	115.1	453.6	84.5	2,252.5	1,943.5

¹ Other emoluments represent expenses chargeable to UK income tax paid to Directors. Included within this category for Mr Perelman, is £76,763 of relocation allowances.

² Aggregate emoluments to Mr Walker, as highest paid Director, amounted to £492,700 (2001: £414,400).

³ Included within fees for the non-executive Directors, are amounts elected to be received by way of shares rather than emoluments, to encourage participation in line with best practice. 133 shares with a gross value of £1,666.67 were received by all of the non-executive Directors for the period from 1 August 2001, with the exception of Mr Arculus who received 551 shares with a gross value of £6,779.60 and Ms Cassoni who received 116 shares with a gross value of £1,458.33.

⁴ Mr Costin's salary and benefits in kind are the amounts earned up to the date he retired as a member of the Board (21 December 2001). In the financial year he received a further £52,700 in salary and £6,100 of benefits in kind in relation to the period following his retirement from the Board to 31 March 2002. Mr Costin retired from the company on 12 May 2002.

	Increase in accrued pension (excluding inflation) in the year to 31 March 2002 ¹ £000	Accumulated total accrued pension 31 March 2002 £000	Transfer value of the increase in accrued benefits ² £000
Directors' pension provisions³			
J K Banyard	7.2	111.6	105.7
M J Bettington	10.3	88.0	100.9
R A S Costin	5.9	63.3	91.5
B Duckworth	7.6	116.8	85.5
A S Perelman	5.5	5.5	64.6
R M Walker	15.0	32.3	225.2

¹ The amount of increase in accrued pension during the year excludes the effects of inflation, measured by reference to an estimate of the increase in the retail prices index between March 2001 and March 2002.

² The transfer value of the increase in accrued benefits is calculated in accordance with Actuarial Guidance Note GN11, less a deduction in respect of each member's own pension contributions during the period. It does not represent a sum payable to individual Directors and cannot therefore meaningfully be added to annual remuneration.

³ In addition, the company contributes £26,280 per annum (£28,680 with effect from 1 January 2002) to Mr Arculus's private pension arrangements.