

## Remuneration report

### Remuneration policy

The company's policy is to establish remuneration packages which enable the company to attract, retain and motivate people with the skills and experience necessary to manage a business of its size and complexity and to meet the expectations of shareholders.

The company keeps its policy under review and, from time to time, commissions reports from external advisers covering appropriate comparators and the key elements of remuneration packages.

### Annual salary and benefits

The board continues to follow the broad principle that base salaries should be aligned with comparable jobs in selected relevant companies. For guidance in determining base salaries, the remuneration committee uses published surveys carried out by remuneration consultants as well as internal research. Benefits in kind, which are not pensionable but are assessable to tax, include a car and life and health insurance.

### Annual bonuses

Bonuses are assessed against demanding performance targets and maximum bonus for the year (40% of basic pay) requires a range of Ofwat measures, financial targets and corporate and personal objectives to be fully satisfied. Bonuses are not pensionable.

### Long term incentive plan

Under the plan, executive directors and other senior executives may receive, at the discretion of the remuneration committee, a conditional award of Kelda Group plc shares each year, with a value of up to 40% of basic pay. The proportion of the award to be vested in the participants after a period of three years will depend upon the company's performance in terms of total shareholder return (i.e. share price movements and reinvested dividends) during the three year period, relative to a comparator group of companies. The comparator group of companies includes both major water and waste water companies and other companies in the FTSE 250. No shares will be awarded to participants for below median performance. For the full award to be made, the company's total shareholder return must be in the top quartile of the comparator group.

In addition, there is an overriding performance condition that no awards will vest unless the remuneration committee is satisfied that the underlying financial performance of the company has been satisfactory over the three year period, taking account of all relevant circumstances, including the regulatory regime in place during the period.

No benefits received under the plan are pensionable.

The conditional awards made to directors during the year are shown in the table on page 24.

## Remuneration report

### Directors' emoluments

	Salary/fees £000	Annual bonus £000	Benefits in kind £000	Total emoluments 2002 £000	Total emoluments 2001 £000
<b>Executive directors</b>					
J A Napier	250	83	4	<b>337</b>	250
J H Newman	180	63	24	<b>267</b>	238
J P O'Kane	144	49	13	<b>206</b>	106
K I Whiteman	154	53	14	<b>221</b>	115
K Bond (resigned 10.04.00)	-	-	-	-	339
<b>Non executive directors</b>					
K Jackson	21	-	-	<b>21</b>	11
J R P Pike	26	-	-	<b>26</b>	26
D F Roberts	47	-	1	<b>48</b>	49
D J Salkeld	26	-	6	<b>32</b>	12
P R Cox (resigned 16.08.00)	-	-	-	-	11
D G Perry (resigned 14.06.00)	-	-	-	-	26
	848	248	62	<b>1,158</b>	1,183

The executive directors participated in a profit related pay scheme which is open to all UK employees who have been employed by the group for a minimum period of permanent employment. In 2001/02 this scheme paid £350 (2001: £342) to each qualified participant and this is included in the salaries shown in the table above. The prior year emoluments for K Bond include a termination payment of £264,000.

The annual bonuses referred to above are performance related and are fully described in the narrative section of this report.

### Pensions

The main features of the Kelda Group Pension Plan applicable to executive directors are:

- (i) a normal retirement age of 60;
- (ii) an accrual rate of 1/30th per year of pensionable service for service up to 20 years;
- (iii) four times pensionable pay for death in service;
- (iv) spouse's pension on death

The Kelda Group Pension Plan is fully funded and subject to Inland Revenue limits. The company makes accounting provision for other unfunded liabilities arising from contractual commitments to directors, because of the earnings 'cap'.

	Increase in accrued pension (excluding inflation) during year £000	Transfer value of increase in accrued pension (excluding inflation) during year £000	Total accrued pension 2002 £000	Total accrued pension 2001 £000
J H Newman	7	72	<b>25</b>	18
J P O'Kane	7	51	<b>15</b>	8
K I Whiteman	7	54	<b>18</b>	11

Transfer values are shown after deduction of directors' contributions to the pension fund and include the unfunded element. James Newman also received an augmentation of pension benefits in 2001 equal to a one-off contribution of £50,000 made to a money purchase scheme in consideration of a salary sacrifice of the same amount. The company has made provision for contributions to the pension fund at the rate of 12% of gross salary.

### Directors' shareholdings

The beneficial interests of the directors, who held office at the end of the year, and their immediate families in the ordinary shares of the company as at 31 March 2002 and at the beginning of the year are set out below:

	At 31 March 2002	At 1 April 2001
<b>Executive directors</b>		
J A Napier	<b>30,000</b>	30,000
J H Newman	<b>12,862</b>	7,622
J P O'Kane	<b>1,071</b>	–
K I Whiteman	<b>1,936</b>	–
<b>Non executive directors</b>		
K Jackson	–	–
J R P Pike	<b>1,004</b>	1,004
D F Roberts	<b>1,973</b>	1,973
D J Salkeld	–	–

In addition to the above beneficial interests in the company's shares, the executive directors are regarded for Companies Act purposes as being interested in 7,581,123 ordinary shares of the company held by an employee share ownership trust (ESOT) and 125,394 ordinary shares held by a qualifying employee share ownership trust (QUEST). All employees (including executive directors) are potential beneficiaries of the trusts, the purposes of which are to provide shares to satisfy options under the company's save-as-you-earn share option scheme and, in the case of the ESOT, grants made pursuant to the long term incentive plan.

It is not anticipated that any employee or executive director will be entitled to receive from either trust a greater number of shares than that to which they are entitled on exercise of options granted to them under the share option scheme or the vesting of awards pursuant to the long term incentive plan.

There have not been any changes to the shareholdings or options of the directors between 31 March 2002 and 29 May 2002.

### Directors' share options

In common with all eligible employees of the group, executive directors are entitled to participate in the company's Inland Revenue approved save-as-you-earn share option scheme. The interests of directors in particular issues under the scheme are:

	At 1 April 2001	Granted during year	Exercised/ lapsed during year	At 31 March 2002	Exercise price (p)	Date options exercisable	Date options expire
J H Newman	4,036	–	–	<b>4,036</b>	240.0	01.03.03	31.08.03
J P O'Kane	3,229	–	–	<b>3,229</b>	240.0	01.03.03	31.08.03

The market price of the shares subject to these options at 31 March 2002 was 389.5p (2001: 349.0p) and has ranged from 329.0p to 398.0p during the year. The aggregate gain on the exercise of share options during the year was £nil (2001: £2,231).

## Remuneration report

### Long term incentive plan

Interests of the directors in the plan are:

	At 1 April 2001	Granted during year	Vested during year	Lapsed during year	At 31 March 2002	Earliest vesting date
J H Newman	10,438	–	(8,734)	(1,704)	–	
	13,134	–	–	–	<b>13,134</b>	29.06.02
	19,101	–	–	–	<b>19,101</b>	21.09.03
	–	18,379	–	–	<b>18,379</b>	07.06.04
J P O’Kane	2,117	–	(1,785)	(332)	–	
	4,853	–	–	–	<b>4,853</b>	29.06.02
	14,045	–	–	–	<b>14,045</b>	21.09.03
	–	13,784	–	–	<b>13,784</b>	07.06.04
K I Whiteman	3,858	–	(3,228)	(630)	–	
	4,947	–	–	–	<b>4,947</b>	29.06.02
	15,169	–	–	–	<b>15,169</b>	21.09.03
	–	14,805	–	–	<b>14,805</b>	07.06.04

The market price of the shares on 29 May 2002 was 405.0p. The aggregate value of shares vested during the year was £50,674 (2001: £9,446).

### Service agreements

All executive directors, other than John Napier, have service agreements which are terminable by the company on twelve months’ notice. John Napier’s appointment in an executive capacity is interim in nature and he does not have a service agreement with the company.

### Fees payable to the company

Waste Recycling Group plc (WRG) paid fees of £12,500 per annum each in respect of John Napier and James Newman for their services as non executive directors of WRG during the year. Such fees were received by the company and not the individuals.

### Non executive directors

The fees for non executive directors are determined by the board. Non executive directors receive a fee of £21,000 per annum and £5,000 per annum for chairing a board committee. Derek Roberts also received fees of £16,000 in his capacity as a non executive director of Yorkshire Water Services Limited and £5,000 as chairman of Kelda Group Pension Trustees Limited.

The non executive directors do not participate in the annual bonus scheme, the long term incentive plan or any company pension scheme.