
**Severn Trent Plc
Remuneration Committee**

Terms of Reference

1 Constitution

The Board of Directors has established, in line with The Combined Code on Corporate Governance 2006¹, (“The Combined Code”), a committee of the Board, henceforth known as the Remuneration Committee (“the committee”). The board shall appoint the committee chairman, who will be an independent director as defined by The Combined Code².

2 Membership

Members of the committee shall be appointed by the board on the recommendation of the Nominations Committee in consultation with the chairman of the committee.

The committee shall consist of a minimum of three members, all of whom shall be independent non-executive directors. The Chairman of the Board may serve as an additional member of the committee provided that he was considered independent on appointment as Chairman.

The Company Secretary or a nominee shall act as the secretary to the committee.

Appointments to the committee shall be for a period of up to three years, which may be extended provided the director remains independent.

3 Quorum

The quorum necessary for the transaction of business by the committee will be two.

In the event that a meeting of the committee is required but a quorum might not be secured, an existing member of the committee shall be empowered, following consultation with the chairman of the committee, to appoint another non-executive director to attend said meeting.

In the absence of the chairman the members attending will elect one of their number to chair the meeting.

The Chairman of the Board shall not be chairman of the committee.

4 Meetings

¹ Combined Code B.2.1

² Combined Code A.3.1

Meetings shall be held at least four times per year, and also at such other times as the chairman of the committee shall require. Only members of the committee have the right to attend.

Prior to the commencement of each calendar year, the chairman of the committee and the Secretary shall review the frequency and dates of meetings for the subsequent financial year and propose such dates for agreement by other members of the committee.

A meeting of the committee may be called by the Secretary at the request of any member of the committee, and the Secretary shall agree the agenda with the chairman.

The Chief Executive, other executive and non-executive directors, other senior management and external advisors may be invited to attend for all or part of any meeting as and when appropriate, particular care being taken to recognise and avoid any conflicts of interest.

Meetings of the committee shall be called by giving at least five working days' written notice unless all the members of the committee agree to shorter notice.

Members may participate in a meeting by means of a conference telephone, video conferencing facility or other suitable communicating equipment.

No committee attendee shall participate in any discussion or decision on their own remuneration, fees or terms or conditions of service.

The Secretary shall minute the proceedings and resolutions of all meetings as well as keep appropriate records. Minutes of the meetings shall be circulated promptly to all members of the committee.

5 Annual General Meeting

The chairman of the committee shall attend the annual general meeting prepared to respond to any shareholder questions on the committee's activities.

6 Authority

The committee is authorised by the board to determine company policy within its terms of reference.

The committee is authorised to seek any information it requires from any employee and all employees shall be directed to co-operate with any request made by the committee.

7 Independent Advice and Resources

The committee is authorised by the Board to obtain outside legal or other independent professional advice as it considers necessary to undertake its duties and to secure the attendance of any such advisers at any meetings of the committee.

In this regard any board policy document concerning the securing of such advice shall be adhered to by the committee.

The committee is exclusively responsible for establishing the selection criteria for such advisors and their appointment and terms of reference.

The appointment and performance of the advisors shall be reviewed by the committee on a regular basis and at least annually.

8 Duties

The duties of the committee are as follows:-

8.1 To ensure:

- (a) that the committee chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;
- (b) that no director or manager should be involved in any decisions as to their own remuneration;
- (c) that effective communications are maintained with institutional investors and representative bodies on the rationale for the prevailing remuneration policy and practices and any anticipated changes and consult the Chairman of the Board in that regard; and
- (d) that the committee's terms of reference are made publicly available.

8.2 To review:

- (a) regularly, the detailed terms of the Executive Directors' contracts and, in any event, at least every three years and ensure that the contractual terms of termination and any payments due and payable thereunder are fair to the individual and the company but so that failure is not rewarded and that a duty to mitigate loss is fully recognised;³
- (b) the ongoing appropriateness and relevance of the remuneration framework and broad policy at least every three years and report thereon to the other Non-Executive Directors and, as appropriate, to the Chief Executive;
- (c) the design of, and the targets for, any performance related pay schemes operated by the company in respect of Executive Team members and approve the payments made under such schemes;
- (d) the dilution limits and headroom in the likelihood of shares be granted under the company's various share schemes; and

³ Combined Code B.1.5

- (e) at least annually, the committee's terms of reference and the effectiveness of the committee and to report to the board in respect thereof, including any recommendations⁴.

8.3 To approve:

- (a) the policy on ancillary employment issues, including but not limited
 - (i) to any requirement for Executive Directors to have personal holdings of company shares
 - (ii) and the retention by them of any financial reward from any external directorships or similar appointments⁵.
- (b) the policy for authorising claims for expenses from the Chief Executive, the Chairman and Deputy Chairman;
- (c) monitor the terms of any proposed letter of appointment or contract or termination arrangements relating to any Executive Director or the Chairman;
- (d) annually, the appropriateness of any performance conditions and for any such performance related share award plans determine each year whether awards will be granted;
- (e) the Remuneration Report for inclusion in the Annual Report and Accounts, ensuring that the components required to be audited are prepared in such a way that they will receive audit approval and comply with the provisions regarding disclosure of remuneration, as set out in the Directors' Remuneration Report Regulations 2002 and The Combined Code (as may be amended from time to time);
- (f) the report on the frequency of, and attendance by members at, committee meetings in the Annual Report;
- (g) within the terms of the agreed framework or broad policy and in consultation with the Chairman and/or Chief Executive, as appropriate, the total individual remuneration package (including but not limited to bonuses, incentive payments, LTIPs and share options or other share awards) of each Executive Director and the Company Secretary and to make recommendations to the Chief Executive on the said designated senior management and, in that regard, consider⁶:
 - (i) the contents of the Combined Code on Corporate Governance and the UK Listing Authority's Listing Rules and associated guidance (as may be amended from time to time) including the

⁴ Combined Code A.6

⁵ Combined Code B.1.4 [*The Directors' Remuneration Regulations 2002 require that the remuneration report contains a statement on policy and quantifies financial rewards retained by a director.*]

⁶ Combined Code B.2.2 and Matters Reserved for the Board 10.2

requirement for explanation in the event of any permitted non-compliance;

- (ii) any other appropriate guidance or recommendations published by the ABI, NAPF and similar representative bodies or institutions of good standing;
 - (iii) the need for clear linkages between both the company's and the individual's performances and remuneration and the interests of shareholders;
 - (iv) the policy and scope of pension arrangements for each Executive Director;
 - (v) that the performance-related elements of the remuneration package form an appropriate and significant proportion of the remuneration package and that the targets and/or performance conditions are set at realistic but challenging levels and that achievement against such targets/performance conditions are clearly monitored⁷; and
 - (vi) the need to carefully consider relevant advice from its independent advisors
- (h) the proposed overall amount of such performance related share awards and, in particular, the individual awards to Executive Directors and other members of the senior management.

8.4 To recommend to the Board:

- (a) a framework or broad policy for the determination of the remuneration of the company's Chief Executive, the Chairman, the other Executive Directors and, in consultation with the Chief Executive, such other members of the senior management, including the Company Secretary as the committee is designated by the Board to consider ensuring that levels of remuneration are sufficient to attract, retain and motivate directors of the quality required to run the company successfully. The objective shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company⁸;
- (b) the design of all proposed new share incentive plans for approval by the Board and shareholders⁹; and
- (c) major changes to the rules of the company's pension schemes.

⁷ Combined Code B.1.1

⁸ MRB 10.1

⁹ Combined Code B.2.4 and MRB 10.3

8.5 **To have regard to the duties of the board of directors** in respect of Section 172 of the Companies Act 2006 in all of its recommendations to the board.

9 Decisions of the Committee

Any decisions of the committee shall be taken on a simple majority basis. The chairman shall have a casting vote in the event of equality of voting.