

Severn Trent Plc

Group Conflicts of Interest Policy

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Document Change History

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Severn Trent Plc: Group Conflicts of Interest Policy (the “Policy”)

The objective of the Policy is to provide guidance around managing conflicts of interests arising from obligations pursuant to the Companies Act 2006 (“CA2006”), UK Corporate Governance Code and associated rules and guidance issued by the Financial Conduct Authority (“FCA”). It covers the following areas:

- What is a conflict of interest;
- When a conflict of interest may arise;
- The types of conflicts which may arise;
- The Company’s Policy on managing conflicts of interest;
- The actions that an individual should take if there is a conflict; and
- Regulatory requirements.

In addition, the Policy details (i) the general duties owed by Directors of Severn Trent Plc Group companies; (ii) a non-exhaustive list of situations where a conflict of interest may arise; and (iii) a Director’s duty to promptly disclose any circumstance that may result in a conflict of interest scenario.

Scope

This Policy applies to:

- Non-Executive and Executive Directors of Severn Trent Plc and its subsidiaries; and
- Connected Persons / Persons Closely Associated (“PCAs”) – including spouse, civil partner, any person who lives with the Director as a partner in an enduring family relationship (excluding grandparents, grandchildren, sister, brother, aunt, uncle, niece or nephew), children and step-children of any age, the Director’s parents and children or step-children of a person who lives with the Director who are under the age of 18.

1. General Duties

Directors owe both fiduciary duties and general duties of reasonable care, skill and diligence to the Company of which they are a Director. The statutory statement of Directors’ duties is contained in sections 171-177 of the CA2006 and is summarised below. Directors’ have a duty to:

- (i) Only exercise powers within the authority given by, and acting in accordance with, the Company’s constitution;
- (ii) At all times act in a way which the Director considers, acting in good faith, to be most likely to promote the success of the Company for the benefit of all its members, whilst having regard to (a) the likely consequences of any decision in the long-term; (b) the interests of employees; (c) the need to foster relationships with suppliers, customers and others; (d) the impact on the community and the environment; (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and (f) the need to act fairly as between members of the Company;
- (iii) Exercise independent judgment in carrying out their duties;
- (iv) Exercise reasonable care, skill and diligence in carrying out their duties commensurate with the general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions of the Director, and with the general knowledge, skill and experience which that particular Director has;
- (v) Avoid a situation in which the Director has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company (which applies, in

- particular, to the exploitation of property, information or opportunity whether or not the Company could itself take advantage of it);
- (vi) Not accept benefits from third parties that are given because of the Director's position as a Director or because of the Director doing (or not doing) something where this may reasonably be regarded as likely to give rise to a conflict of interest; and
 - (vii) Declare an interest in a proposed transaction or arrangement with the Company (and a separate duty to disclose any interest in an existing transaction or arrangement with the Company under section 182 CA2006).

2. Conflicts of Interest

Conflicts can arise in many ways, the basic elements of any definition being the tensions between competing interests, the Director's interest on the one hand – be these personal or financial – and the interest of the Company on the other hand. Directors' interests may be direct or indirect (including Connected Persons' / PCAs' interests). Whilst there is no statutory definition of a conflict of interest, "interest" is a very broad term that includes anything, or any connection, which could potentially divert a Director's mind from giving sole consideration to promoting the success of the Company.

Even if not defined, a conflict includes situations in which the impartiality of a Director in discharging his/her duties could be called into question because of the potential, perceived or actual improper influence of personal, financial and other considerations on the discharge of their duties.

Conflicts may impede a Director's ability to perform their duties independently and objectively and subject them to undue influence due to:

- (i) Personal, professional or economic relationships with other persons (such as advisers, regulators, customers, suppliers, shareholders or competitors);
- (ii) Past or present positions held with other organisations;
- (iii) Personal, professional or economic relationships with other members of the Board or senior management of the Company or the Group;
- (iv) Other economic interests; or
- (v) Other interests, including the interests of Connected Persons / PCAs.

There is no breach of duty when a situation cannot reasonably be regarded as likely to give rise to a conflict of interest.

3. Situational Conflicts – Duty to Avoid Conflicts of Interest

Directors have a duty to avoid activities or situations in which there is, or may be, a conflict between the interests of the Company and the direct or indirect interests of the Director or between the Director's duties to the Company and to another person.

Under the CA2006, the relevant Board is able to authorise situational conflicts, if considered appropriate. The Board may do this provided that appropriate, mitigating measures are put in place and (i) this is done in advance and in compliance with the relevant company's articles of association; (ii) that any quorum requirement is met without counting the interested Director; and (iii) the matter is agreed without counting any vote cast by the interested Director.

Directors should notify the Company Secretary so that the conflict may be considered by the Board. The Board may attach terms to any authorised conflict, for example through excluding a Director from a meeting or withholding Board papers.

4. Transactional Conflicts – Duty to Disclose Any Interest in a Proposed or Existing Transaction or Arrangement with the Company

Under the Companies Act, Directors have an obligation to disclose any interest they have, on their own or on behalf of third parties, with respect to certain transactions or arrangements with the Company.

It should be noted that:

- Transactional conflicts include tender processes; and
- A transactional conflict where the transaction or arrangement results in an ongoing relationship with the Company may become a situational conflict.

If a Director becomes aware that they have a direct or indirect interest in an existing or proposed transaction or arrangement with the Company they should notify the Company Secretary. Interests in proposed transactions or arrangements should be notified before the transaction or arrangement is entered into and Directors have an ongoing duty to update any changes in these interests.

5. Identification of Conflicts

When assessing independence and objectivity of Directors, the Board shall evaluate whether Directors have conflicts of interests to the extent that this may impede their ability to perform their duties independently and objectively.

Listed below are examples of circumstances that may give rise to conflicts of interest. This list is not intended to be exhaustive and does not cover all circumstances that the Board may consider.

i. Contracts, Proposed Contracts and Similar Transactions or Arrangements

A conflict may arise where a Director / Senior Manager has a direct or an indirect interest. This may be where the Director / Senior Manager, or a Connected Person, has a connection with the other party. The connection may arise from a Directorship, significant shareholding, employment or otherwise.

ii. External Directorships / Business Interests

Including:

- External Directorships;
- Non-Executive Director positions (including Chairmanships);
- Political positions; and
- External businesses.

Executive and Non-Executive Directors are permitted to hold other external Directorships. All potential appointments must be disclosed to the Chair and Company Secretary, for consideration by the relevant Board, in advance of appointment in order so that any potential conflicts can be reviewed and appropriately recorded.

iii. Intra-group Transactions – Directors Holding Various Directorships within the Group

Where a Director holds various Directorships within the Group, a conflict may occur as a result of intra-group transactions in the ordinary course of business.

Directors have a duty to disclose promptly in accordance with this Policy if any of the above situations apply, or may apply, to them. Directors should also disclose any other matters that they consider may give rise to a conflict of interest and provide sufficient information as required by the Board.

6. Reporting Responsibilities

Directors must identify and promptly report to the Board, and Company Secretary, any circumstances which may give rise to a conflict of interest that may impede their ability to perform their duties independently and objectively.

In advance of appointment to the Board, and half yearly thereafter, each Director is required to complete a Declaration of Conflicts of Interest Form provided by Company Secretariat. In the event of queries in respect of this, please contact Company Secretariat.

In addition to this declaration, Company Secretariat will also request information relating to Director's PCAs on a half yearly basis. A register of declarations is maintained by Company Secretariat.

7. Assessment of Independence

The Board is responsible for the assessment of the independence and objectivity of its members on appointment and in the event of a potential conflict of interest scenario.

The Board shall assess each situation on a case-by-case basis, taking into consideration the following list of non-exhaustive factors:

- The overall position of the Director;
- The interests of the Company;
- The materiality of the conflict; and
- Its ability to influence the independence and objectivity of the Director.

8. Mitigation of Conflicts

The Board reserves the right to decide on appropriate mitigation actions and/or specific conflict procedures to address any actual or potential conflict of interest that is notified by a Director. This may include requiring the Director to abstain from voting on particular matters, leaving Board meetings at which particular matters are to be discussed and not being provided with Board papers pertaining to certain matters.

9. Register of Conflicts

A register of declaration of interests is maintained by Company Secretariat. Where a conflict of interest scenario arises, the register will specify the mitigating activities agreed by the Board, and set out the process by which these arrangements will be continually reviewed.

The Company Secretary is responsible for the management and keeping of the register including any Board decisions regarding the assessment of the independence and objectivity of Directors.

10. Non-compliance with the Policy

All Directors must adhere to this Policy at all times. Any breach of this Policy shall be referred to the Chair for consideration and action.