

# Severn Trent Plc (the “Company”)

## Remuneration Committee

### Terms of Reference

Approved by the Board on 20 March 2020

#### 1. Constitution

The Board of Directors (the “Board”) has established, in line with the UK Corporate Governance Code 2018 (the “Code”), a Committee of the Board by resolution of the Board, henceforth known as the Remuneration Committee (the “Committee”).

#### 2. Purpose

- (a) The purpose of the Committee is to establish a formal and transparent procedure for developing policy and practices on executive remuneration and to design and determine remuneration for the Chair, Executive Directors and other senior management as required by the Code.
- (b) The Committee should also review workforce remuneration and related policies and the alignment of incentives and rewards with culture.

#### 3. Membership

- (a) The Committee shall consist of a minimum of at least three members. All members of the Committee shall be Independent Non-Executive Directors of the Company appointed by the Board, on the recommendation of the Nominations Committee in consultation with the Chair of the Committee, in accordance with the Company’s articles of association. The Chair of the Board may serve as an additional member of the Committee provided that he/she was considered independent on appointment as Chair.
- (b) Only members of the Committee have the right to attend Committee meetings. The Chief Executive, other Executive and Non-Executive Directors, senior management and external advisors may be invited to attend all or part of any meeting as and when appropriate and necessary, particular care being taken to recognise and avoid any conflicts of interest. No Committee attendee shall participate in any discussion or decision on their own remuneration, fees or terms or conditions of service.
- (c) Appointments to the Committee shall be for an initial period of three years. The period of office may be extended for such duration as may be determined by the Board, so as long as the member continues to be an Independent Non-Executive Director.
- (d) The Board shall appoint one of the Committee members to be the Committee Chair on the recommendation of the Nominations Committee and who must have served on a remuneration committee for at least twelve months. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from

those who would qualify under these terms of reference to be appointed to that position by the Board. The Chair of the Board shall not be Chair of the Committee.

- (e) The Chair and Committee members shall be listed on the Company's website and each year in the Company's Annual Report and Accounts.
- (f) Each member of the Committee shall disclose to the Committee:
  - (i) Any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
  - (ii) Any potential conflict of interest arising from a cross-directorship or other business interests.

Any such member shall abstain from voting on resolutions and participating in the discussion concerning such resolutions.

#### **4. Secretary**

The Company Secretary or his or her nominee shall act as the Secretary to the Committee.

#### **5. Quorum**

- (a) The quorum necessary for the transaction of business by the Committee will be two members, one of whom shall be the Chair of the Committee or his or her appointed deputy.
- (b) 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 to appoint another Independent Non-Executive Director(s) to attend such meeting, in consultation with the Chair of the Committee, to act as that member's alternate, provided that such Director meets the criteria for membership of the Committee.

#### **6. Frequency of Meetings**

Meetings shall be held at least four times per year. Meetings will also be held at any other time as the Committee's role and responsibilities require, and otherwise as the Chair of the Committee or its members shall require.

#### **7. Notice of Meetings**

- (a) Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair or any of its members.
- (b) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend no later than five working days before the date of the meeting, unless agreed otherwise in advance. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time to enable proper consideration of matters by the Committee.
- (c) Members may participate in a meeting by means of telephone, video conferencing facility or other suitable communication equipment.

## **8. Minutes of Meetings**

- (a) The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance and the existence of any conflicts of interest.
- (b) Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee after a meeting. Once approved, minutes should be circulated to all other members of the Board and attendees unless exceptionally the Committee Chair considers that it would be inappropriate to do so.

## **9. Annual General Meeting**

The Chair of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

## **10. Duties**

The Committee shall carry out the duties below in respect of the Company, its major operating subsidiaries and the Group as a whole, as appropriate. In carrying out these duties, the members of the Committee must comply with their duty under section 172 of the Companies Act 2006 to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, whilst having regard to the interests of employees, stakeholders and other matters as required by section 172.

### **(a) Group Remuneration Policy and Specific Remuneration Arrangements**

The Committee shall determine:

- (i) on the Board's behalf, the remuneration framework and broad policy for each of:
  - A. The Chair of the Board;
  - B. The Chief Executive and other Executive Directors;
  - C. The Company Secretary; and
  - D. All other members of the Severn Trent Plc Executive Committee ("STEC")

(The persons covered by B – D above shall be referred to herein as the "Executive Group")

In making such remuneration policy determinations, it shall consider:

- the contents of the Code including that remuneration policies and practices should be designed to support the strategy and promote long-term sustainable success and that executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the Company's long term strategy;
- the Listing Rules and associated guidance (as may be amended from time to time) including the requirement for explanation in the event of any permitted non-compliance;

- any other appropriate guidance or recommendations published by the Pensions and Lifetime Savings Association ('PLSA') and similar representative bodies or institutions of good standing;
  - the need for clear linkages between both the Company's and the individuals' performances and remuneration and the interests of shareholders;
  - the need to exercise independent judgment and discretion;
  - consultation with the Chair of the Board and the Chief Executive, as appropriate;
  - the policy and scope of pension arrangements for the Executive Group and in relation to the Executive Directors, considering those arrangements as compared to workforce arrangements and aligning executive Director contributions to those available to the workforce;
  - 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 monitored;
  - relevant advice from its independent advisors;
  - the remuneration practice across the group;
  - the risk policies and systems across the group; and
  - best practice with regard to remuneration in other companies.
- (ii) annually, within the remuneration policy framework, the total individual remuneration packages of the Executive Group (including but not limited to salary, bonuses, discretionary payments, pension, share-based payments (such as LTIP) and their equivalents, benefits in kind);
- (iii) arrangements for liaison with the Nominations Committee to ensure that the remuneration package of newly appointed Directors are within the group's remuneration policy framework;
- (iv) the policy on ancillary employment issues, including the retention by Executive Directors of any financial reward from any external directorships or similar appointments;
- (v) the policy for authorising claims for expenses from the Chief Executive, the Chair and other Directors;
- (vi) arrangements to monitor the terms of any proposed letter of appointment or contract or compensation arrangements relating to any Executive Director or the Chair and any payments made thereunder;
- (vii) annually, the appropriateness of any performance conditions and for any performance related share award plans, determine each year whether awards will be granted;

- (viii) the proposed overall amount of performance related share awards and, in particular, the individual awards to the Executive Group; and
- (ix) awards under any other share plans operated by the group.

The Committee shall review:

- (i) regularly, the detailed terms of the Executive Directors' contracts and, in any event, at least every three years and ensure that compensation commitments and any payments due and payable thereunder are fair to the individual and the Company and do not reward poor performance and that the compensation to departing Directors reflects their obligation to mitigate loss and that duty to mitigate loss is fully recognised;
- (ii) the ongoing appropriateness and relevance of the remuneration framework and broad policy annually and report thereon to the other Non-Executive Directors and, as appropriate, to the Chief Executive;
- (iii) the overall design of, and the targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- (iv) the dilution limits and headroom in the likelihood of shares being granted under the Company's various share schemes;
- (v) workforce remuneration and related policies and the alignment of incentives and reworks with culture, including such matters as pay principles, base pay, benefits, incentives and financial and non-financial reward that drives behaviour to be aware of and oversee any major changes in employee remuneration policy or employee benefit structures throughout the Company or group.
- (vi) the appointment and terms of reference for any remuneration consultants who advise the Committee, and in carrying out such a review be exclusively responsible for establishing the selection criteria and selection of such consultants, considering any other connection that they may have with the Company; and
- (vii) any major changes in employee benefits arrangements throughout the group.

The Committee shall ensure:

- (i) that a formal and transparent procedure exists for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors taking into account the Company and individual's performance and wider circumstances;
- (ii) that potential conflicts of interest are managed and that no Director or manager should be involved in any decisions as to their own remuneration;
- (iii) that effective communications are maintained with investors and representative bodies on the rationale for the prevailing remuneration policy and practices and any anticipated changes and consult the Chair of the Board in that regard;

- (iv) that the remuneration policies operated throughout the group reflect the group's risk policies and systems, and in particular that they do not encourage excessive risk taking;
- (v) that in all its decisions relating to remuneration policies for the Executive Group, regard shall be taken of workforce remuneration and related policies elsewhere in the group and the overall cost to shareholders;
- (vi) that the remuneration policies for the Executive Group are set at an appropriate level and structured to ensure and promote the long-term sustainable success of the group with executive Director remuneration aligned to the Company's purpose and values and clearly linked to the successful delivery of the Company's long-term strategy;
- (vii) that provisions regarding disclosure of information (as set out in the Companies Act 2006, Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the Listing Rules and the Code) are fulfilled and produce a report of the Company's remuneration policy and an Annual Report on remuneration which should be brought to shareholders for their specific approval; and
- (viii) that the Committee's terms of reference are made available on the Company's website its terms of reference explaining clearly its role and the authority delegated to it.

The Committee shall recommend to the Board:

- (i) a framework or broad policy for the determination of the remuneration of the Executive Group, in consultation where appropriate with the Chief Executive and the Company Chair. In making such recommendations it shall ensure 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 Group 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 Company; and
  - (ii) major changes to the rules of the Company's pension schemes.
- (b) **Shareholding Policy**

The Committee shall review, at least annually, the requirement for Executive Directors and senior executives, where appropriate, to maintain a holding in the Company's shares and/or retain vested awards in line with relevant individual's salary, to be built up over a period of time at the Committee's discretion and that there is formal policy on post-employment shareholding requirements.

(c) **Remuneration Schemes**

The Committee shall, within the terms of the remuneration policy, recommend to the Board the design of all proposed long term incentive plans or other remuneration schemes (or any other plans requiring shareholder approval), and the arrangements for individual invitations to executives or employees made under such schemes, for approval by the Board and shareholders (where applicable).

## **11. Reporting Responsibilities**

- (a) The Committee Chair shall report orally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report on how it has discharged its responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall approve the Directors' remuneration report to be included in the Company's Annual Report, including:
  - (i) the annual statement from the Chair of the Remuneration Committee;
  - (ii) the annual report on remuneration setting out payments during the financial year; and
  - (iii) when required, the Directors' remuneration policy in relation to future payments to the Directors and former Directors.
- (d) The Committee shall approve the description of the work of the Committee in the Company's Annual Report, such description shall include:
  - (i) an explanation of the strategic rationale for Executive Directors' remuneration policies, structures and any performance metrics;
  - (ii) reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
  - (iii) a description, with examples, of how the Committee has addressed the requirements of the Code when determining the Directors' remuneration policy and practices;
  - (iv) an explanation of whether the Directors' remuneration policy operated as intended in terms of company performance and quantum, and if not, what changes are necessary;
  - (v) details of what engagement has taken place with shareholders and the impact this has had on the Directors' remuneration policy and outcomes;
  - (vi) details of what engagement has taken place with the workforce to explain how executive remuneration aligns with wider company pay policy; and
  - (vii) the extent of discretion which has been applied, if any, to remuneration outcomes and the reasons why.

## **12. Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- (d) oversee any investigation of activities which are within its terms of reference; and
- (e) arrange for periodic reviews of its own performance, and at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

### **13. Authority**

The Committee is authorised by the Board:

- (a) to seek any information it requires from any employee of the Company in order to perform its duties;
- (b) to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference. In this regard any Board policy document concerning the securing of such advice shall be adhered to by the Committee:
  - (i) the Committee is exclusively responsible for establishing the selection criteria for such advisors and their appointment and terms of reference; and
  - (ii) the appointment and performance of such advisors shall be reviewed by the Committee on a regular basis and at least annually;
- (c) to call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) to have the right to publish in the Company's Annual Report details of any issues that cannot be resolved between the Committee and the Board.