
**Severn Trent Plc
Remuneration Committee**

**Terms of Reference
(Approved by the Board on 24 March 2017)**

1. Purpose

The purpose of the Committee is to establish a formal and transparent procedure for developing policy on Executive remuneration and to set the remuneration packages of individual Executive Directors, as required by section D.2 of the UK Corporate Governance Code April 2016 (the “Code”).

2. Constitution

The Board of Directors (the “Board”) has established, in line with the UK Corporate Governance Code April 2016 (“the Code”), a Committee of the Board by resolution of the Board, henceforth known as the Remuneration Committee (the “Committee”).

3. Membership

- (a) The Committee shall consist of a minimum of three members. 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, in accordance with the Company’s articles of association.
- (b) All members of the Committee shall be independent non-executive Directors of the Company appointed by the Board. The Chairman of the Board may serve as an additional member of the Committee provided that he/she was considered independent on appointment as Chairman. The Chairman of the Board shall not be Chairman of the Remuneration Committee.
- (c) 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.
- (d) 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.
- (e) The Board shall appoint one of the Committee members to be the Committee Chairman on the recommendation of the Nominations Committee. In the absence of the Committee Chairman and/or appointed deputy, the remaining members present shall elect one of themselves to Chair the meeting. The Chairman of the board shall not be Chairman of the Committee.
- (f) The Chairman and Committee members shall be listed on the Company’s website and each year in the Company’s Annual Report and Accounts.
- (g) Each member of the Remuneration Committee shall disclose to the Committee:
 - (i) Any personal financial interest (other than as a shareholder) in any matter to be decided by the Remuneration 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.
- (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 said meeting, in consultation with the Chairman of the Committee, to act as that member's alternate.

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 Chairman 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 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 the Committee Chairman considers it would be inappropriate to do so.

9. Annual General Meeting

The Chairman 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 should carry out the duties below in respect of Severn Trent Plc, major subsidiary undertakings and the group as a whole, as appropriate.

(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 Chairman;
 - 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 and the UK Listing Authority's 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;
 - consultation with the Company Chairman and the Chief Executive, as appropriate;
 - the policy and scope of pension arrangements for the Executive Group;
 - 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 Chairman and other Directors;
- (vi) arrangements to monitor the terms of any proposed letter of appointment or contract or termination arrangements relating to any Executive Director or the Chairman 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;
- (ix) awards under any other share plans operated by the group;
- (x) the policy for authorising claims for expenses from the Chief Executive, the Chairman and other Directors;
- (xi) arrangements to monitor the terms of any proposed letter of appointment or contract or termination arrangements relating to any Executive Director or the Chairman and any payments made thereunder;
- (xii) annually, the appropriateness of any performance conditions and for any performance related share award plans, determine each year whether awards will be granted;
- (xiii) the proposed overall amount of performance related share awards and, in particular, the individual awards to the Executive Group; and
- (xiv) 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 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;
- (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) annually, remuneration trends across the group including the total annual salary budget;
- (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;
- (ii) 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 Chairman 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 employee pay and conditions 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 success of the group;
- (vii) that provisions regarding disclosure of information (as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) 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 publicly available, explaining the Committee's role and the authority delegated to it by the Board by including the information on the Company's website.

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 Chairman. 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.

(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 Chairman 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; and
- (c) The Committee shall approve the section of the Annual Report which deals with the activities of the Committee and shall formally report such to the Board.

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 Authority's Listing, Prospectus and Disclosure 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:

- (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.
- (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.