

## **SOUTH WEST WATER LIMITED**

### **REMUNERATION COMMITTEE**

#### **TERMS OF REFERENCE**

##### **1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee, in accordance with the Company's articles of association. The Committee shall be made up of at least three independent non-executive directors. The Chairman of the Board may be a member of the Committee if he or she was considered independent on appointment as Chairman.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals, including the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Director of Human Resources and any external advisers may be invited to attend for all or part of any meeting as and when appropriate and necessary.
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director (other than the Board Chairman, if he or she is a member of the Committee) remains independent.
- 1.4 The Committee Chairman, who shall be an independent non-executive director, shall be appointed by the Board on the recommendation of the Nomination Committee from among the members of the Remuneration Committee. Before appointment as Committee Chairman, the appointee will normally have served on a Remuneration Committee of a listed company for at least 12 months. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. The Chairman of the Board shall not be Chairman of the Committee.
- 1.5 Each member of the Committee should be capable of making a valuable contribution to the Committee such that the Committee, collectively, has appropriate knowledge, expertise and professional experience concerning remuneration policies and practices.
- 1.6 Each member of the Committee shall disclose to the Committee:
  - a. any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
  - b. any potential conflict of interest arising from a cross-directorship or other business interest.

Any such member shall abstain from voting on resolutions and participating in the discussions concerning such resolutions. Except where he has a personal interest, the Committee Chairman shall have a casting vote.

- 1.7 The Committee Chairman and members shall be listed each year in the Company's annual report.

## **2. Secretary**

- 2.1 The Company Secretary or their nominee shall act as the secretary of the Committee.

## **3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **4. Meetings**

- 4.1 The Committee shall meet at least twice a year in person or by telephone or video conference and at such other times as the Chairman of the Committee shall require.

## **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Company Secretary at the request of the Committee Chairman.
- 5.2 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time and in a timely manner to enable full and proper consideration to be given to the issues.

## **6. Minutes**

- 6.1 The Company Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists or if the Committee Chairman considers it inappropriate to do so.

## **7. Annual General Meeting**

- 7.1 The Chairman of the Committee should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities. All members of the Committee shall also attend the Annual General Meeting.

## **8. Duties**

The Committee shall:

- 8.1 Determine and agree with the Board the remuneration for the Company's Executive Directors, including pension rights and any compensation payments. The remuneration of non-executive directors shall be a matter for the Chairman and the Executive Directors of the Board within the limits set out in the Articles of Association. The remuneration of the Chairman shall be a matter for the Remuneration Committee of the Pennon Group plc ("the Group"). No Director or senior manager shall be involved in any decisions as to their own remuneration;
- 8.2 Determine the Company's remuneration policy, taking into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code ("the Code") and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to the views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long-term strategic goals, purpose and culture and the desired behaviours that underpin them. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to support the strategy and promote the long-term sustainable success of the Company;
- 8.3 Review workforce remuneration and related policies for the purpose of aligning incentives and rewards with culture, taking these into account when setting the remuneration policy for Executive Directors and providing the Board with feedback. The Committee should consider the alignment of Executive Director and other Senior Management and workforce remuneration policies;
- 8.4 Review the ongoing appropriateness and relevance of the remuneration policy;
- 8.5 Ensure that directors are only remunerated (including any payment in respect of loss of office) in accordance with policy previously approved by Pennon's shareholders;
- 8.6 Approve the design of, and determine targets for, any performance-related pay schemes operated by the Company or Group and approve the total annual payments made under such schemes (in accordance with the provisions in the Code). The Committee should ensure that such schemes include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so;
- 8.7 Review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be

made, and if so, the overall amount of such awards, the individual awards to the Executive Directors and other Senior Management and the performance targets to be used;

- 8.8 Determine the policy for, and scope of, pension arrangements for the Executive Directors and other Senior Management;
- 8.9 Determine on behalf of the Board and keep under review the shareholding guidelines, including any policies for post-employment shareholding requirements, for Executive Directors and other Senior Management;
- 8.10 Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.11 Within the terms of the agreed policy and in consultation with the Chairman and/or Group Chief Executive Officer as appropriate, determine the total individual remuneration package of the Company Chairman, Executive Directors and other Senior Management including bonuses, incentive payments and share options or other share awards;
- 8.12 Ensure that remuneration schemes and policies enable the use of discretion to override formulaic outturns, and exercise independent judgement and discretion when authorising remuneration outcomes, taking into account of Company and individual performance, and wider circumstances;
- 8.13 Recognise and manage conflicts of interest when receiving views from the Executive Directors and other Senior Management;
- 8.14 Review and note annually the remuneration trends across the Group;
- 8.15 Agree the policy for authorising claims for expenses from the directors and the Chairman;
- 8.16 Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board;
- 8.17 Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and
- 8.18 Work and liaise as necessary with all other Board committees.

## **9. Reporting Responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Code, are fulfilled. The Committee shall produce:

- (i) an annual report setting out the Company's remuneration policies and practices, and its duties and activities during the year; and
- (ii) a policy report in respect of directors' remuneration at least every three years,

which shall form part of the Company's annual report and accounts and to be approved by shareholders as required under the Companies Act 2006. If the Committee has appointed remuneration consultants, the remuneration report should identify such consultants and state whether they have any other connection with the Company.

9.4 Through the Chairman of the Board, the Committee shall ensure that the Company maintains contact as required with its principal shareholders about remuneration.

## **10. Other**

The Committee shall:

- 10.1 Arrange for annual reviews of its own performance, 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.
- 10.2 Have access to sufficient resources in order to carry out its duties, with unfettered access to all information and data from independent control functions (such as risk management), including access to the company secretariat for assistance as required.
- 10.3 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.
- 10.4 Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non-listed companies and formation and operation of share schemes including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules as well as guidelines published by the Investment Association, other shareholder representative bodies and any other applicable rules, as appropriate; and
- 10.5 Make available to shareholders these terms of reference by placing them on the Company's website.

## **11. Authority**

- 11.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties and all employees are directed by the Board to cooperate with any request made by the Committee.

- 11.2 The Committee is authorised by the Board to obtain, at the Company's expense, external or other professional advice on any matters within its terms of reference and to secure the attendance of any person with relevant experience and expertise if it reasonably considers this necessary.

**12. Approval**

- 12.1 These terms of reference were approved by the Board of South West Water Limited on 28 March 2019.