

**Southern Water Services Limited Remuneration Committee
(the “Committee”)**

Terms of Reference

1. Membership

1.1. The Committee shall comprise at least three members, of whom:

1.1.1. a majority shall be independent non-executive directors; and

1.1.2. all must be non-executive directors¹.

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

1.3. Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive Officer, Director of HR, Executive Leadership Team members, external advisers and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

1.4. The board shall appoint the Committee chairman who shall be an independent non-executive director. 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.

2. Secretary

2.1. The company secretary, or his/her nominee, shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3. Quorum

3.1. The quorum necessary for the transaction of business shall be two members and at least half of the members in attendance (including participation via electronic, telephonic or similar means) must be independent non-executive directors.

4. Frequency of Meetings

4.1. The Committee shall meet at least three times a year and otherwise as required.

5. Notice of Meetings

5.1. Meetings of the Committee shall be convened by the secretary of the Committee at the request of the Committee chairman.

5.2. Unless otherwise agreed by the Committee, 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 no later than five working days before the date of the meeting. Where possible, supporting papers shall be sent to Committee members at the same time.

5.3. Notices, agendas and supporting papers can be sent in electronic form.

6. Minutes of Meetings

6.1. The secretary or his/her delegate shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

¹ For the purposes of this provision, the board chairman shall be eligible to be a member of the Committee.

6.2. Draft minutes of Committee meetings shall be agreed with the Committee chairman and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee chairman.

7. Duties

7.1. The Committee shall:

- 7.1.1. have responsibility for setting the remuneration policy for all executive directors and the company's chairman, including pension rights and any compensation payments. The board itself should determine the remuneration of the non-executive directors. No director or senior executive² shall be involved in any decisions as to their own remuneration;
- 7.1.2. recommend and monitor the level and structure of remuneration for senior executives;
- 7.1.3. in determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements and the provisions and recommendations of, among others, the UK Corporate Governance Code and any corporate governance principles issued by Ofwat from time-to-time. 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 views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the company and be aligned to the company's long-term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and be designed to promote the long-term success of the company;
- 7.1.4. when determining executive director remuneration policy and practices, the Committee should address the following:
 - 7.1.4.1. clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders, the workforce and other stakeholders;
 - 7.1.4.2. simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand;
 - 7.1.4.3. risk – remuneration structures should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
 - 7.1.4.4. predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy;
 - 7.1.4.5. proportionality – the link between individual rewards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance; and
 - 7.1.4.6. alignment to culture – incentive schemes should drive behaviours consistent with company purpose, value and strategy;
- 7.1.5. when setting remuneration policy for directors, review and have regard to workforce remuneration and related policies across the company and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration;
- 7.1.6. review the ongoing appropriateness and relevance of the remuneration policy;
- 7.1.7. within the terms of the agreed policy and in consultation with the chairman and/or Chief Executive Officer, as appropriate, determine the total individual remuneration package of each executive director, the company chairman and other designated senior executives including bonuses, incentive payments and other awards;

² senior executives" includes all direct reports to the Chief Executive Officer, together with such other key senior managers as the Committee shall determine.

- 7.1.8. 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 or purchase any reports, surveys or information which it deems necessary at the expense of the company but within any budgetary restraints imposed by the board;
- 7.1.9. be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 7.1.10. approve the design of, and determine targets for, any performance-related pay schemes operated by the company and approve the total annual payments made under such schemes;
- 7.1.11. review the design of all long-term incentive plans for approval by the board. 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 executive directors, company secretary and other designated senior executives and the performance targets to be used;
- 7.1.12. determine the policy for, and scope of, pension arrangements for each executive director and other designated senior executives;
- 7.1.13. ensure that contractual terms on termination, and any payments made, are fair to the individual and to the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 7.1.14. oversee any major changes in employee benefits structures throughout the company;
- 7.1.15. agree the policy for authorising claims for expenses from the directors; and
- 7.1.16. work and liaise as necessary with all other board committees.

8. Reporting Responsibilities

- 8.1. The Committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.2. The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3. 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 other applicable law and regulation are fulfilled and produce a report of the company's remuneration policy and practices to be included in the company's annual report. If the Committee has appointed remuneration consultants, the annual report of the company's remuneration policy should identify such consultants and state whether they have any other connection with the company.
- 8.4. Through the chairman of the board, the Committee shall ensure that the company maintains contact as required with its principal shareholders about remuneration.

9. Other Matters

- 9.1. The Committee shall:
 - 9.1.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
 - 9.1.2. be provided with appropriate and timely training, both in the form of an induction programme and on an ongoing basis for all members;
 - 9.1.3. give due consideration to relevant laws and regulations, including the requirements of Ofwat, the Environment Agency and Drinking Water Inspectorate, and any other applicable rules, as appropriate; and

9.1.4. 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.

9.2. For the purposes of these terms of reference the term “company” shall, unless indicated otherwise, refer to Southern Water Services Limited. Furthermore, the term “board” shall, unless indicated otherwise, refer to the board of directors of Southern Water Services Limited.

10. Authority

10.1. The Committee is authorised to obtain, at the company’s expense, outside legal or other professional advice on any matters within its terms of reference.

Date approved by the Board of Southern Water Services Limited: 27 February 2019