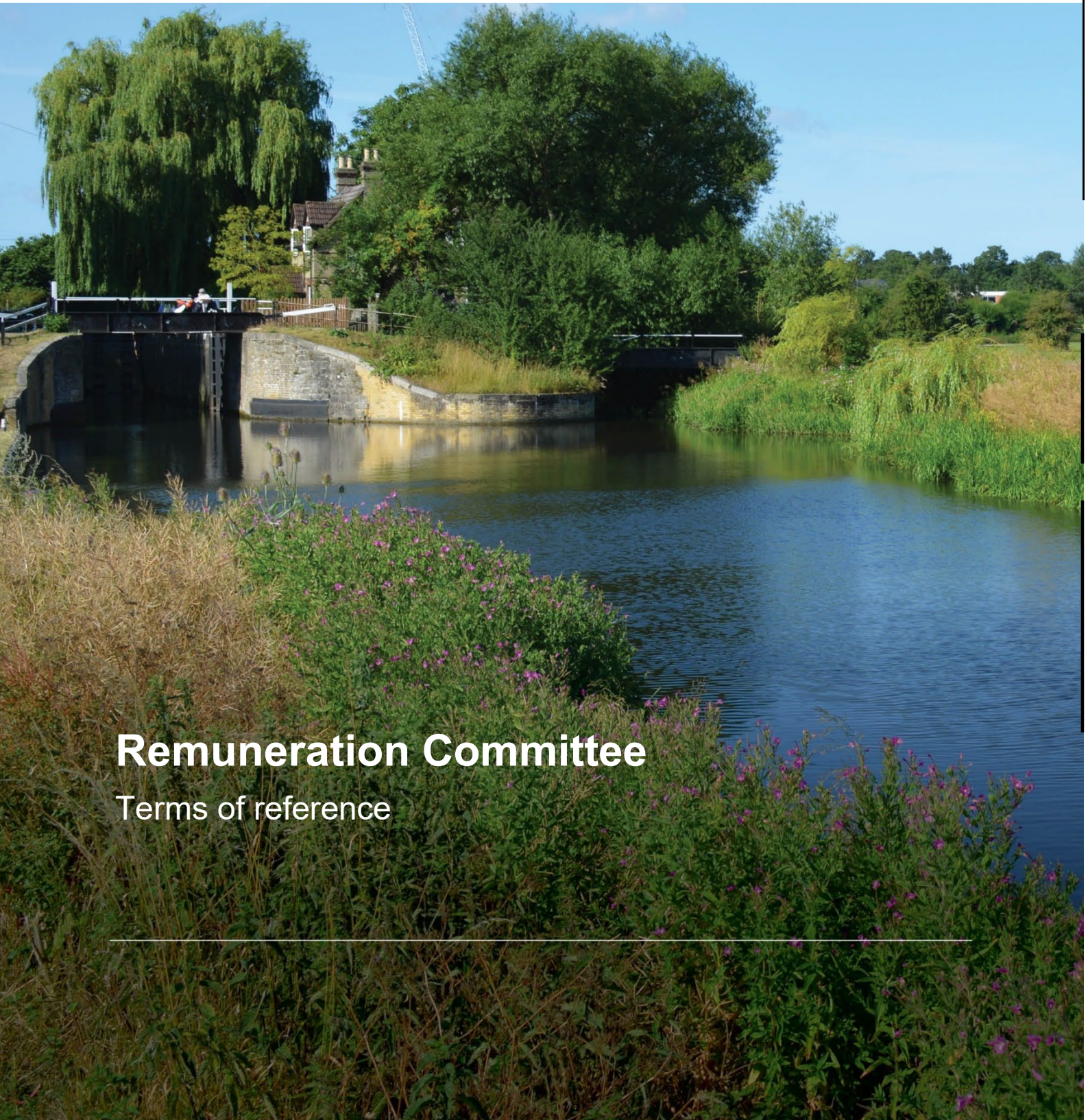


# AffinityWater



## Remuneration Committee

Terms of reference

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## **REMUNERATION COMMITTEE TERMS OF REFERENCE<sup>1</sup>**

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### **1. MEMBERSHIP**

- 1.1 The committee shall comprise at least four members, a majority of whom shall be independent non-executive directors and one of whom shall be non-executive directors appointed by investors. The chair of the board may also serve on the committee as an additional member and chair of the committee if he or she is considered independent. Members of the committee shall be appointed by the board, on the recommendation of the nomination committee and in consultation with the chair of the committee.
- 1.2 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chief executive, the head of human resources and 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 are made by the board and shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the chair of the board if he or she is a member of the committee) continue to be independent.
- 1.4 The board shall appoint the committee chair who shall be an independent non-executive director. Before appointment as chair of the committee, the appointee should have served on a remuneration committee for at least 12 months.
- 1.5 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 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.

### **2. SECRETARY**

The company secretary or his or 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**

The quorum necessary for the transaction of business shall be two at least one of whom shall be an independent non-executive director.

### **4. MEETINGS**

The committee shall meet at least twice a year and otherwise as required.

### **5. NOTICE OF MEETINGS**

- 5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair.
- 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, any other person required to attend and all other non-executive directors, 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.

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<sup>1</sup> The terms of reference are based on the Model Terms of Reference for remuneration committees published by the Institute of Chartered Company Secretaries in June 2013 and updated to reflect the 2018 UK Corporate Governance Code and FRC Guidance on Board Effectiveness and Ofwat's 2019 BLTG principles.

## **6. MINUTES OF MEETINGS**

- 6.1 The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board unless in the opinion of the committee chair it would be inappropriate to do so.

## **7. ANNUAL GENERAL MEETING**

The committee chair should attend the annual general meeting to answer any shareholder questions on the committee's activities.

## **8. DUTIES**

### ***Determining policy and setting awards***

- 8.1 The committee shall have responsibility for determining the policy for executive director remuneration and setting remuneration for the Chair, executive directors, company secretary, and the senior executive team. including pension rights and any compensation payments in accordance with the Company's instrument of appointment, Ofwat's board leadership, transparency principles, the governance principles and provisions of the Code and any other applicable rules, as appropriate. No director, company secretary or senior executive shall be involved in any decisions as to their own remuneration.
- 8.2 The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non- executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.
- 8.3 The committee shall review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.
- 8.4 When determining executive director remuneration policy and practices, the committee shall address the following factors set out in Provision 40 of the 2018 UK Corporate Governance Code:
  - clarity
  - simplicity
  - risk
  - predictability
  - proportionality
  - alignment to culture
- 8.5 The committee shall focus on the strategic rationale for executive pay and the links between remuneration, strategy, and long-term sustainable success.
- 8.6 The committee shall seek to simplify the structure of remuneration policy, wherever possible. This will help reduce the reliance on consultants and also improve communication with employees and other stakeholders. Simpler structures will free up time for the committee to review employee remuneration.

### **Long term incentives**

- 8.7 The committee shall design incentive schemes that promote long-term incentivisation of executive directors to support alignment with long-term customer, shareholder, and wider stakeholder interests.
- 8.8 The committee shall take steps to counteract the risk of incentives that are detrimental to the long- term success of the company. The committee shall design packages that are structured to ensure exposure to long-term value to support alignment with customers, shareholders and wider stakeholders and encourage executive directors to focus on the impact of their decisions over the long-term.

### **Determining Awards and Discretion**

- 8.9 The committee shall exercise judgement when determining remuneration awards. It should be mindful of the possible monetary outcomes and of external perceptions arising from its decisions.
- 8.10 The committee shall assess the overall reasonableness of the total rewards and recommend adjusting pay awards, for example, where the outcome would otherwise not be aligned to individual performance and results achieved or would not deliver the policy intention.
- 8.11 The exercise of discretion may also be necessary as a result of unexpected or unforeseen circumstances, in order to ensure the remuneration outcome for individual directors is reasonable and reflects the individual's contribution.
- 8.12 Long term Incentive schemes should also include malus and claw back provisions in specified circumstances. Such circumstances might include payments based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage, and corporate failure.

### **Benchmarking and Remuneration Consultants**

- 8.13 The committee shall avoid designing pay structures based solely on benchmarking to the market, or the advice of remuneration consultants, as there is a risk this could encourage an upward ratcheting effect on executive pay.
- 8.14 Where appropriate, the committee shall appoint a remuneration consultant to obtain reliable, up- to-date information about remuneration in other companies of comparable scale and complexity.
- 8.15 The consultant shall be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties and when receiving views from executive directors and senior management

### **Pensions**

- 8.16 Pension commitments for executive directors, or payments in lieu of notice, should be aligned with those available to the workforce. While it may not be practical to alter existing contractual commitments in this regard, the committee shall ensure that future contractual arrangements heed this.

### **Notice Periods and Compensation Payments**

- 8.17 Notice periods should be one year or less. If it is necessary to offer longer periods to new directors recruited from outside the company, such periods should reduce to one year or less after the initial period. The committee shall ensure compensation commitments in directors' terms of appointment do not reward poor performance. They should be robust in reducing compensation to reflect departing directors' obligations to mitigate loss.
- 8.18 Compensation commitments due to directors under their terms of appointment in the event

of loss of office should be proportionate and variable by discretion, so that the committee can vary compensation where appropriate to the circumstances and to reflect departing directors' conduct and performance.

## **9. REPORTING RESPONSIBILITIES**

- 9.1 The committee chair shall report 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, and adequate time should be made available for board discussion when necessary.
- 9.3 The committee shall provide a description of its work in the annual report, including:
- an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
  - reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
  - a description, with examples, of how the committee has addressed the factors in paragraph 8.4 of these terms of reference (Provision 40 of the Code);
  - whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;
  - what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
  - what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and
  - to what extent discretion has been applied to remuneration outcomes and the reasons why.
- 9.4 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, the Code and BLTG Principles, are fulfilled, and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM. 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.
- 9.5 The committee shall ensure that the Company maintains contact as required with its principal shareholders about remuneration in accordance with the principles set out in the Company's governance paper entitled "*Consulting with our Shareholders*".
- 9.6 If the committee has appointed remuneration consultants, the consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors.

## **10. OTHER MATTERS**

The committee shall:

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

- 10.3 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 in accordance with the Company's instrument of appointment, Ofwat's board leadership, transparency principles, the governance principles and provisions of the Code and any other applicable rules, as appropriate.
- 10.4 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.

## **11. AUTHORITY**

The committee is authorised by the board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

Approved by the Board on 24 February 2025