

PENNON GROUP PLC
(the “Company”)

REMUNERATION COMMITTEE (the “Committee”)
TERMS OF REFERENCE

1. COMPOSITION

1.1 Membership

- Members will be appointed by the Board, on the recommendation of the Nomination Committee, in accordance with the Company’s articles of association, and in consultation with the Chair of the Remuneration Committee.
- The Committee shall be made up of at least three members all of whom shall be independent non-executive directors. The Chair of the Board may be a member of the Committee if he or she was considered independent on appointment as Chair.

1.2 Committee Chair

- Appointed by the Board and shall be an independent non-executive director (but not the Chair of the Board).
- Will normally have served on a Remuneration Committee of a listed company for at least 12 months prior to their appointment.
- 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.

1.3 Secretary

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

2. DUTIES AND RESPONSIBILITIES

In carrying out its responsibilities the Committee must act in accordance with the UK Corporate Governance Code (the “Code”) and shall:

2.1 Remuneration policy

2.1.1 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 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, values and culture and the desired behavior that underpin them. Consideration should be given to the Code requirements and address the following:

- clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce;
- simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand;
- risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;

- 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; and
- alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.

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.

- 2.1.2 Review the ongoing appropriateness and relevance of the remuneration policy and ensure that all remuneration arrangements/payments comply with the existing policy including consideration of any shareholder votes against the remuneration report and remuneration policy at the previous AGM and how shareholder views have been taken into account in formulating policies.
- 2.1.3 Within the terms of the relevant agreed policy and in consultation with the Chair of the Board and/or Group Chief Executive Officer as appropriate, determine the total individual remuneration package of the Company Chair, statutory Directors and other Senior Management including salaries, bonuses, benefits, incentive payments and share options or other share awards.
- 2.1.4 Ensure that directors are only remunerated (including any payment in respect of loss of office) in accordance with the policy previously approved by shareholders.

2.2 Remuneration

- 2.2.1 Determine and agree with the Board the remuneration of the Company's Chair, Group Chief Executive Officer, the Group Chief Financial Officer and all other direct reports of the Group Chief Executive Officer, as well as the statutory directors of South West Water Limited ("Statutory Directors and other Senior Management"). For the avoidance of doubt the Committee shall not determine and agree the remuneration for:
- 2.2.1.1 any director of other subsidiary companies;
- 2.2.1.2 any additional remuneration paid to a Group employee for taking on the role of a director of a company which is outside of the Group (for accounting tax purposes) but to which a Group company is a shareholder (other than if the director falls within the definition of Statutory Directors and other Senior Management, as defined above); and
- 2.2.1.3 any director of a joint venture company which is not employed by the Group.

The remuneration of Non-Executive Directors shall be a matter for the Chair and the Statutory Directors of the Board.

No Director or Manager shall be involved in any decisions as to their own remuneration.

2.3 Performance related pay schemes

- 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 of the Code). The Committee should withhold the payment of any sum or share award and specify the circumstances in which it is appropriate to do so.
- 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 Company and individual performance, and wider circumstances.

2.4 **Share incentive plans**

- Approve (and where appropriate recommend to the Board) the design of all share-based incentive plans and, where applicable, seek final approval from shareholders.
- Determine each year whether awards will be made, and if so, approve the overall amount of those awards, as well as, in respect of the long-term incentive awards, the individual awards to Statutory Directors and other Senior Management.
- Determine and approve the performance measures and targets applicable to any long-term incentive awards and monitor the achievement of those performance targets.
- Monitor the vesting under all share-based incentive plans, and specifically approve any vesting of awards to Statutory Directors and other Senior Management.
- Design and invoke any safeguards, for example clawback, to ensure that any performance-related payments reflect actual achievements.

2.5 **Shareholding guidelines and post-employment shareholding requirements**

- Determine on behalf of the Board and keep under review the shareholding guidelines.
- Establish a formal policy for post-employment shareholding requirements for Statutory Directors.

2.6 **Pension arrangements**

- Determine the policy for, and scope of, pension arrangements for the Statutory Directors and other Senior Management considering the arrangements available to the wider workforce.

2.7 **Termination**

- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

2.8 **Remuneration Consultants**

- Obtain reliable, up to date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligation of 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. However, the Committee should avoid approving pay structure based solely on benchmarking to the market or on advice of remuneration consultants.
- Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

2.9 **Expenses**

- Agree the policy for authorising claims for expenses from the directors and the Chair.

2.10 **Workforce engagement**

- Review and monitor workforce remuneration and related policies for the purpose of aligning incentives and rewards with culture, taking these into account when setting the policy for Statutory Directors and other Senior Management and providing the Board with feedback. The Committee should consider the alignment of Statutory Directors and workforce remuneration policies.

- The Committee shall ensure effective engagement with the workforce in relation to remuneration and related policies and practices. This may include noting of employee engagement surveys and management reports to gauge employee feedback and culture.

3. REPORTING

3.1 To the Board

- The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 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.

3.2 Annual Report

The Committee shall:

- on behalf of the Board, produce a Directors' Remuneration Report to be included in the Company's Annual Report for approval by Shareholders at each Annual General Meeting. The Committee should also describe the work of the Committee in discharging its responsibilities in the Annual Report;
- seek shareholder approval of any changes to the Remuneration Policy applicable to Board Directors (or any aspect of the remuneration policy that requires approval such as share plans as applicable) and review this Policy at least every three years in accordance with regulatory requirements;
- ensure that all provisions regarding disclosure of remuneration are fulfilled, having regard to the latest legislation, corporate governance best practice, the FCA Listing Rules and the UK Corporate Governance Code; and
- through the Chair of the Board or the Committee Chair as appropriate, ensure that the Company maintains contact as required with its principal shareholders about remuneration, and engages in appropriate discussions as necessary.

3.3 To the Committee

- The Committee will receive a report each year from the Company's Reward function on remuneration trends and pay/employment conditions across the Group.

4. OTHER MATTERS

The Committee shall:

4.1 Evaluation

The Committee shall, at least once a year, review its own performance, 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.

4.2 Training and Information

The Committee shall 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. The Committee shall also be kept regularly informed on remuneration market trends, gender comparative remuneration and, if appropriate, reliable up to date information about remuneration in other companies of comparable scale and complexity to provide external context.

4.3 Investigations

The Committee shall oversee any investigation of activities which are within its terms of reference.

4.4 Projects

The Committee may undertake other projects relating to its remit as appropriate or requested by the Board.

4.5 Best practice

The Committee shall give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of Directors of listed companies and the formation and operation of share plans including but not limited to the provisions of the UK Corporate Governance Code, the requirements of the FCA Listing, Prospectus and Disclosure Guidance and Transparency Rules as well as guidelines published by relevant institutional investors and representative bodies and any other applicable rules as appropriate.

4.6 Authority

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;
- obtain, at the Company's expense, any outside legal or other professional advice on any matters within its terms of reference;
- call any employee to be questioned at a meeting of the Committee as and when required; and
- gain unrestricted access to all books and records of the Company.

5. MEETING ARRANGEMENTS

5.1 Attendance

- Only members of the Committee have the right to attend meetings.
- Other individuals such as the Group Chief Executive Officer, the Group Chief People Officer, and external advisers may be invited to attend for all or part of any meeting as

and when appropriate.

- Any other member of the Board may attend all or part of a meeting with the prior approval of the Committee Chair.

5.2 Meetings

- 5.2.1 The quorum necessary for the transaction of business shall be two members. 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.
- 5.2.2 The Committee shall meet at least twice a year in person or by telephone or video conference and at other times as the Chair of the Committee shall require.
- 5.2.3 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members.
- 5.2.4 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 unless agreed otherwise in advance. 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 issues.
- 5.2.5 The Secretary will minute the proceedings of each meeting, which shall be circulated promptly to all members of the Committee and, once agreed, to all other members of the Board, unless it would be inappropriate to do so.
- 5.2.6 Conflicts of interest must be declared by members at the beginning of meetings and the Secretary shall record any such declaration in the minutes. If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly, has a conflict of interest, that member shall not be permitted to vote at the meeting.

5.3 Resolutions and approvals

- 5.3.1 Committee resolutions shall be passed by the absolute majority of votes cast. In the event of equality of votes, the Committee Chair shall have the casting vote (except where he/she is not permitted to vote).
- 5.3.2 Approvals may be taken in written form (including email), or via telephone or video conference.
- 5.3.3 Approvals by email must be included in the minutes of the next meeting of the Committee.
- 5.3.4 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these terms of reference. The Committee may sub-delegate any or all of its powers as it thinks fit to the Committee Chair or, if it considers it to be appropriate, to the Company Secretary.

5.4 Annual General Meeting

The Committee Chair shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities. In addition, the Committee Chair should seek engagement with shareholders on significant matters related to the Committee's area of responsibility.

These terms of reference were approved by the Board of Pennon Group plc on 16th November 2023