

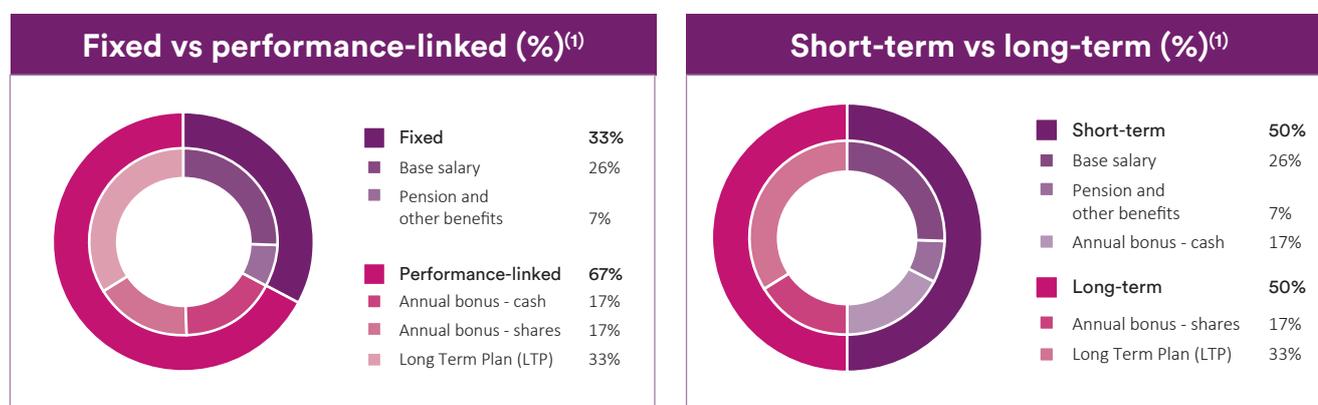
Corporate governance report

At a glance summary: executive directors' remuneration

Executive directors' remuneration policy

Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-linked, long-term and remains 'at risk' (i.e. subject to withholding and recovery provisions for a period over which the committee can withhold vesting or recover sums paid):



(1) Based on maximum payout scenario for executive directors assuming the normal maximum award level of 130 per cent of salary for the Long Term Plan (LTP).

Pay at risk



Further details on what triggers withholding and recovery provisions can be found on pages 92 to 93.

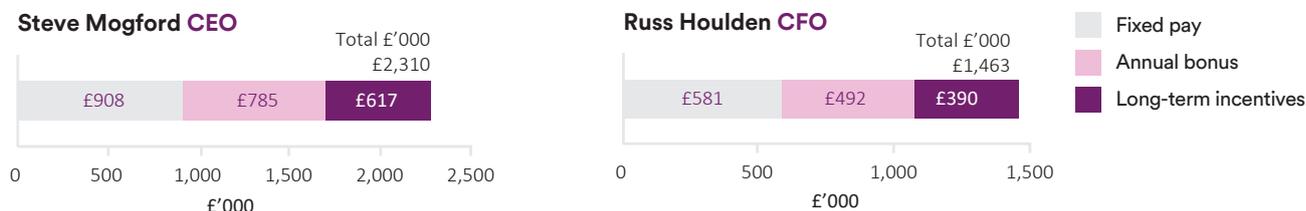
Implementation of directors' remuneration policy in 2016/17

The table below summarises the implementation of the directors' remuneration policy for executive directors in 2016/17. For further details see the annual report on remuneration on pages 98 to 109.

Key element	Implementation of policy in 2016/17
Base salary	— Salary increase of 2.0 per cent from 1 September 2016 in line with the headline increase for the wider workforce
Benefits and pension	— Market competitive benefits package — Cash pension allowance of 22 per cent of base salary
Annual bonus	— Maximum opportunity of 130 per cent of base salary — 2016/17 annual bonus outcome of around 84 per cent of maximum — 50 per cent of 2016/17 annual bonus deferred in shares for three years — Withholding and recovery provisions apply
Long Term Plan	— Award of 130 per cent of base salary — Estimated long-term incentive vesting of 59.1 per cent for the performance period 1 April 2014 to 31 March 2017, supported by a total shareholder return of around 45 per cent over the same period. These awards will vest after an additional two-year holding period — Withholding and recovery provisions apply
Shareholding guidelines	— Personal shareholdings remain significantly above the 200 per cent of salary minimum guideline

Single total figure of remuneration for executive directors for 2016/17

Fixed pay comprises base salary, benefits and pension. Further information on the single total figure of remuneration can be seen on page 98.



KPI performance



Key:

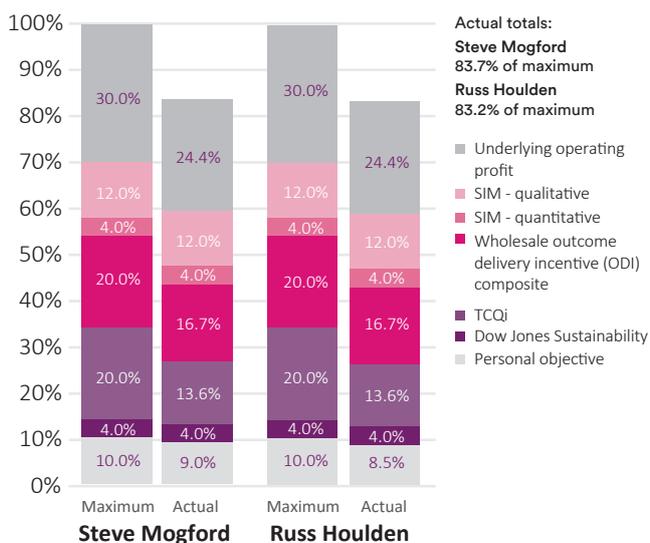
● Above stretch target ● Between threshold and stretch targets ● Below threshold target

- (1) For the purpose of annual bonus underlying operating profit is subject to a number of adjustments, principally in regard to infrastructure renewals expenditure, giving an underlying operating profit of £765.4 million. See page 99 for further details.
- (2) The estimated ranking versus 17 other water companies using the SIM combined score is seventh.
- (3) For the purpose of the Long Term Plan, the TSR index is averaged over the three months prior to the start and end of the performance period.
- (4) Average underlying dividend cover over 2014/15, 2015/16 and 2016/17.

Annual bonus and Long Term Plan (LTP) outcomes

The charts below show the results of the performance against targets for the annual bonus and LTP schemes. Further information on annual bonus can be seen on page 99 and on LTP on page 101.

2016/17 Annual bonus outcome



Estimated 2014 Long Term Plan (LTP) outcome



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Aligning remuneration to business strategy

Our remuneration policy has been designed in order to promote the long-term success of the company.

The following table provides a summary of how our incentive framework aligns with our business strategy and the results that it delivers. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2015-20 (see pages 31 to 33).

Alignment to strategy		Link to strategic objectives	A long-term approach to creating sustainable value
Annual bonus			
Underlying operating profit	Key measure of shareholder value.		✓
Customer service in year › Service incentive mechanism – qualitative › Service incentive mechanism – quantitative	Delivering the best service to customers is a strategic objective. Ofwat can apply financial incentives or penalties depending on our customer service performance.		✓
Maintaining and enhancing services for customers › Wholesale outcome delivery incentive (ODI) composite › Time, cost and quality of the capital programme (TCQi)	Delivering the best service to customers is a strategic objective. There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises. Keeping tight control of our capital programmes ensures we can provide a reliable service to our customers at the lowest sustainable cost.	  	✓
Corporate responsibility › Dow Jones Sustainability Index ¹	Ensures that we manage our business in a responsible manner.		✓
Personal	Focused on specific areas of individual contribution.	  	✓
Compulsory deferral of bonus	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.		✓
Long Term Plan (LTP)			
Relative total shareholder return (TSR)	Direct measure of delivery of shareholder returns, rewarding management for the outperformance of a comparator group of companies.		✓
Sustainable dividends	Direct measure of return to shareholders through dividend payments, whilst focusing on the creation of strong earnings that ensure the sustainability of dividends.	 	✓
Customer service excellence	This is fundamental to delivering our vision of becoming the best UK water and wastewater company, providing great service to our customers. This measure has a direct financial impact on the company as Ofwat can apply financial incentives or penalties depending on our customer service performance.	 	✓
Additional two-year holding period	Ensures continued alignment with shareholder interests and provides an additional period over which withholding can be applied.		✓
Shareholding guidelines	It is important that a significant investment is made by each executive director in the shares of the company to provide alignment with shareholder interests.		✓

Key:

 The best service to customers  At the lowest sustainable cost  In a responsible manner

(1) The Dow Jones Sustainability Index is included as a measure for the 2016/17 annual bonus but will be removed for the 2017/18 annual bonus. See page 100 for further details.