



Energy for
generations

ESB Group

Remuneration & Management Development Committee Terms of Reference

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1. Objectives

The Remuneration and Management Development Committee (REMCO) (“the Committee”) is responsible for the oversight of the remuneration, Terms and Conditions, succession planning and development for the Chief Executive, Executive Director positions and the Company Secretary.

Executive Remuneration strategy, frameworks and policies, shall be aligned to Government Pay Policy and shall give consideration to the principles and provisions of the Code of Practice for the Governance of State Bodies (2019) and the UK Corporate Governance Code (where relevant).

2. Scope

The remit of the Committee includes the role of the Chief Executive, Executive Directors, the Company Secretary and non-executive Board Members of subsidiary companies. The term ‘Executive Director’ includes the positions of Managing Director, ESB Networks and Managing Director NIE Networks and any other position at direct report to the Chief Executive approved by the Board.

3. Membership

- 3.1 The Committee shall normally comprise at least three members, all of whom shall be independent non-executive directors. The Chairman of the Board shall be the chairperson of the Committee.
- 3.2 Appointments to the Committee are made by the Board on the recommendation of the Chairman. Committee members (other than the Chairman) shall serve for a period of five years which may be renewed up to a maximum of eight years in total. The general aim is to refresh the membership from time to time to ensure an appropriate balance between continuity and fresh perspective.
- 3.3 The Committee Chairman should meet regularly with the Chairman of the Audit and Risk Committee to agree and update as appropriate the specific risk responsibilities of the Committee.
- 3.4 Only members of the Committee have the right to attend committee meetings. However, the Chief Executive and external advisers may be invited to attend for all or part of any meeting, as and when appropriate¹.
- 3.5 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.

4. Secretary

- 4.1 The Company Secretary shall act as the Secretary of the Committee.
- 4.2 The Secretary of the Committee 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.

¹ FRC Guidance on Board Effectiveness 2018, paragraph 64

- 4.3 The process for recording declarations of conflicts of interest in the Committee shall be the same as for the Board. Neither members of the Board nor the Committee members may participate in discussions or decisions relating to their own remuneration.
- 4.4 The Company Secretary shall ensure Committee members are provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis.

5. Quorum

The quorum necessary for the transaction of business shall be two.

6. Frequency of meetings

The Committee shall meet at least twice a year and otherwise as required to discharge its responsibilities.

7. Notice of meetings

- 7.1 Meetings of the Committee shall be called by the Company Secretary at the request of the Committee Chairman or any of its members.
- 7.2 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.

8. Minutes of Meetings

- 8.1 The Company Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 8.2 The Company Secretary shall circulate the minutes of meetings of the Committee to the independent members of the board and the Committee Chairman shall update the Board on the proceedings of the Committee.

9. Duties

Without limiting the generality of the Committee's objectives set out in paragraph 1, the Committee will adopt and implement a policy on Executive remuneration which is clear, simple, predictable, proportionate and aligns to culture. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the company successfully having regard to views of the shareholder.

In their deliberations, the Committee will have regard to the ongoing appropriateness of remuneration policy, relevant market comparisons and practice, alignment to company purpose and values and successful delivery of the company's long-term strategy.

Specifically, the Committee shall carry out the following functions in respect of: -

9.1 Board and Main Subsidiary Board Members Remuneration

- (i) To approve implementation of any changes in the remuneration arrangements of Board members (including Worker Directors²), ensuring compliance with Government Pay policy, legal obligations and the Code of Practice for Governance of State Bodies;
- (ii) To approve fees paid to subsidiary board members (where applicable) prior to the approval by the Board of appointments to subsidiaries.

9.2 Board Succession Planning

- (i) Review the Board's Succession Plan annually;
- (ii) Advise the Chairman, in the context of advising the Minister regarding upcoming Board appointments, on the requisite depth of relevant sectoral, operational, geographic or functional capability required on the Board ensuring governance gaps and gender diversity are identified.

9.3 Chief Executive's Performance & Remuneration

- (i) To approve the remuneration and Terms and Conditions of employment of the Chief Executive ensuring compliance with Government Pay policy and the Code of Practice for Governance of State Bodies;
- (ii) To approve any performance related reward system (where applicable) in respect of the Chief Executive;
- (iii) To approve Objectives/Key Results for the Chief Executive;
- (iv) To assess the performance of the Chief Executive annually following consultation with senior stakeholders. The REMCO shall consider the CEO's report on performance, making their own assessment of this, and providing additional input based on any feedback elicited by the Board Chairman. The Board Chairman will provide direct feedback to the CEO to allow a discussion in relation to both performance and opportunities for improvement; and
- (v) The Chairman, on an annual basis, shall provide Non-Executive Directors with the opportunity to informally share or discuss feedback in relation to the performance of the Chief Executive in order that this can be taken into account as part of the CEO performance assessment process.

9.4 Executive Performance & Remuneration

- (i) To approve Executive remuneration policy³ having regard to legal and regulatory requirements, obligations in the Code of Practice for the Governance of State Bodies, market remuneration comparators for roles of similar scale and responsibility while ensuring appropriate headroom relative to the approved salary for the Chief Executive;

² Except for normal pay movements in line with the company's reward model for their role

³ with the exception of the Chief Executive.

- (ii) In consultation with the Chief Executive, approve the remuneration and other terms and conditions of employment of Executive Directors and the Company Secretary prior to approval by Board of appointments to Executive or Company Secretary positions;
- (iii) To oversee the implementation of approved Executive Remuneration Policy and approve salary increases and performance related payments on the recommendation of the Chief Executive; and
- (iv) To review of the performance of the Executive Director Team (EDT) annually. This will be in the form of a written report from the Chief Executive on EDT delivery of Objectives and Key Results (OKRs) that can be shared with the Non-Executive Directors.

9.5 Succession Planning & Leadership Development

- (i) To lead succession planning for the role of Chief Executive and to
- (ii) annually review opportunities to develop the talent pipeline, succession planning and leadership development for Executive positions.
- (iii) To review the development of the EDT annually. This will be in the form of an appropriate written report from the CEO to REMCO that can be shared with the Non-Executive Directors.

9.6 Termination Payments

- (i) To approve termination and retirement arrangements, including ill health retirement arrangements, for the Chief Executive, Executive Directors and the Company Secretary;
- (ii) To give or authorise any approvals required of ESB under or in connection with Section 251 of the Companies Act 2014 in relation to directors of ESB subsidiaries.

10. Miscellaneous

The Committee shall: -

- 10.1 consider the company's pay model and system of performance management in their review of Executive remuneration policy and frameworks;
- 10.2 support the Board in carrying out its responsibilities for ensuring that risks in relation to remuneration policy, retention and succession issues for executives and compliance with legal obligations and applicable government policy on pay are properly reviewed. In approving remuneration for the Chief Executive and senior management the Committee shall have regard for the risk appetite of the Company;
- 10.3 consider both diversity and gender pay balance in deliberations of the Committee;
- 10.4 review, on an annual basis, the Committee's Terms of Reference and recommend to the Board any amendments thereto;
- 10.5 carry out any other duties or responsibilities expressly delegated to the Committee by the Board from time to time.

11. Authority

- 11.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required. As and when required, the Committee may access professional advice and may commission both formal and informal studies to assist its formulation of remuneration policy. Where remuneration consultants are appointed, the Committee should consider whether they have any other connection with the Group;
- 11.2 The Committee is authorised to seek any information it requires from any employee to enable it to discharge its responsibilities.

12. Performance Evaluation

- 12.1 On a yearly basis, the Committee shall review its own effectiveness and implement any recommendations arising.

13. Reporting

The Committee shall: -

- 13.1 provide a description of its work in the annual report;
- 13.2 update the Board as necessary to include a report by the Committee Chairman on any significant changes or unresolved issues in relation to risks within the remit of the Committee;
- 13.3 confirm that provisions regarding disclosure of information the Code of Practice for the Governance of State Bodies are fulfilled, and that a report on the directors' remuneration policy and practices is included in the company's annual report.