

# Mutual Energy Remuneration Policy

## APPROVED BY A BINDING VOTE AT MUTUAL ENERGY LIMITED's 27 SEPTEMBER 2018 ANNUAL GENERAL MEETING

The policy is to pay no more than is necessary to attract, motivate and retain individuals of the calibre necessary to run a group of the scale and complexity of Mutual Energy. The committee believes that a substantial proportion of the package should be performance-related.

### Policy for executive directors

The following table provides a summary of the key components of the remuneration package for executive directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy.	Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: <ul style="list-style-type: none"> <li>- role, experience or performance;</li> <li>- average change in broader workforce salary;</li> <li>- group performance and prevailing market conditions; and</li> <li>- external benchmarking of similar roles at comparable companies.</li> </ul>	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments other than as noted under deferred performance-related pay.
Taxable benefits	Providing employee protection in interest of employee and group.	Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme.  Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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<p>Annual performance-related pay</p>	<p>Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity.</p>	<p>The remuneration committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable.</p> <p>Performance-related pay is calculated and awarded based on the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).</p>	<p>Normal annual performance-related pay is expected to be 20% of salary with a maximum annual performance-related pay potential of 30% of salary.</p>	<p>Performance-related pay elements are based on group KPIs for the year and include:</p> <ul style="list-style-type: none"> <li>• Availability and asset integrity improvements;</li> <li>• Revenue;</li> <li>• Costs and cost savings; and</li> <li>• Compliance and health and safety improvements</li> </ul> <p>Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum.</p> <p>As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.</p>	<p>There are no provisions for the recovery of any sums paid or the withholding of any payments.</p>
<p>Deferred performance-related pay</p>	<p>Align executives with long term interests of the group and encourage retention of key employees.</p>	<p>Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables</p>	<p>It is expected that each year up to 50% of salary will be deferred. However this amount can be in the range 45-55% to give a total annual and deferred performance-related</p>	<p>The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the remuneration committee.</p>	<p>The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the committee.</p> <p>The Remuneration Committee may adjust an award before it is paid, for example by lapsing part or all of it,</p>

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		in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	pay receivable of 75% in relation to each year.	The categories for which targets are set include asset performance, financial and regulatory/market performance.	reducing the value which would otherwise vest, by imposing additional conditions on it, or imposing a new holding period. Award adjustments may be made as a result of an individual's misconduct or misconduct through the individual's direction or non-direction, which influenced the metrics and outcomes used in determining the individual's annual performance-related pay outcome; any material breach of health and safety or environment regulations; or material failure of risk management. For a further two years after payment, clawback adjustments may be made as a result of an individual's misconduct which influenced the metrics and outcomes used in determining the individual's annual or deferred performance-related pay included in that payment.
Pensions	To provide funding for retirement.	A defined contribution allowance for all Executive Directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for Company paid pension contributions and vice versa. NIC cost savings for taking additional into pension are credited to the individual's pension. Any additional NIC costs from reducing amounts paid into pension are deducted from the director's pension allowance.	The company pension contribution entitlement will align with the pension contribution rates of the wider workforce; is expected to be 9.5 % of salary; and be no more than 25%, excluding any employee salary sacrifice.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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The committee selected the performance conditions because these are central to the company's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business. The performance targets for both annual and deferred performance-related pay are determined each year by the Committee, reflecting both financial and non-financial measures, and are typically set at a level that is aligned with company forecasts.

The Committee is of the opinion that the performance targets for the annual and deferred performance-related pay are commercially sensitive in respect of the group and that it would be detrimental to the interests of the group to disclose them before the start of the financial year. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report, to the extent that they do not remain commercially sensitive at that time.

In relation to the annual performance-related pay plan, the Committee retains discretion over:

- The participants;
- The timing of grant of a payment;
- The determination of the performance-related pay payment;
- Dealing with a change of control;
- Determination on the treatment of leavers based on the rules of the plan and the appropriate treatment chosen; and
- The annual review of performance measures and weighting, and targets for the annual performance-related pay plan from year to year.

In relation to both the Company's annual and deferred performance-related pay plan, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration.

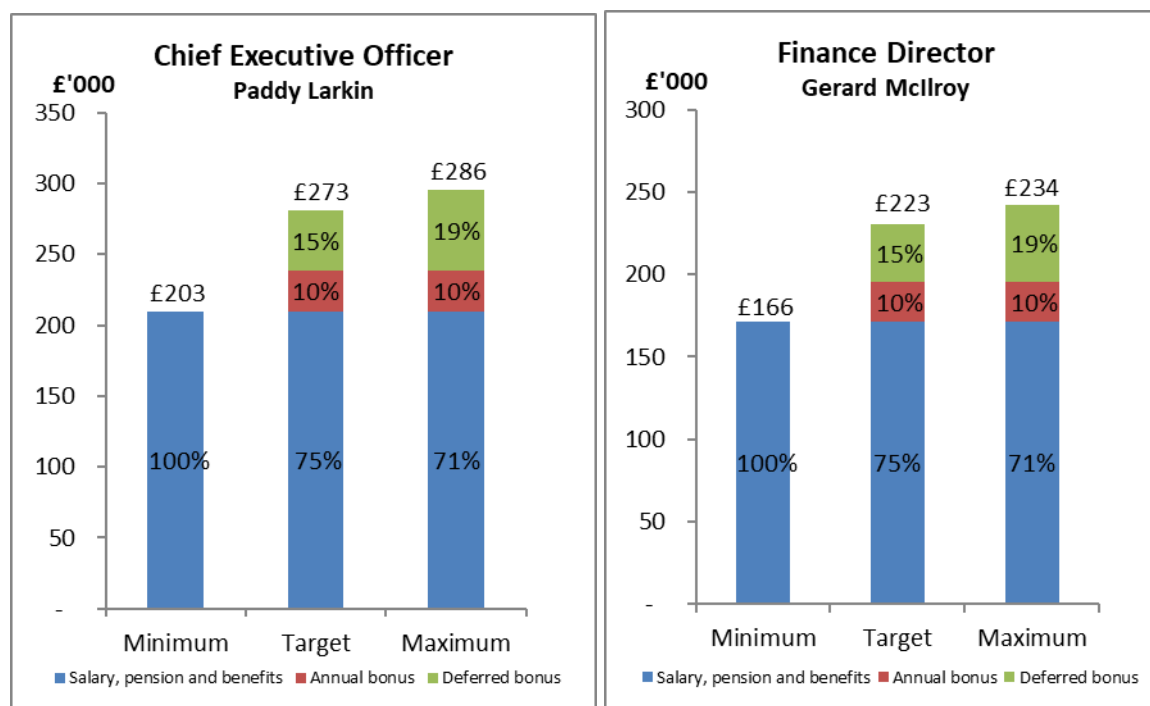
The Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

All employees are entitled to base salary, benefits, pension and annual performance-related pay. The remuneration policy for the executive directors is more heavily weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of the business strategy. The maximum performance-related pay opportunity available is based on the seniority and responsibility of the role with the employee average potential performance-related pay being 16% at the time of policy setting.

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## Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2018/19 under three different performance levels is shown below.



The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only;
- Target – Fixed pay plus 100% of the in-year performance-related pay (as these are based on fundamental operational performance measures and the aim is to meet these in full) plus 75% of the potential maximum deferral; and
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2018;
- benefits – amount received by each Executive Director in the 2017/18 financial year; and
- pension – amount received by each Executive Director in the 2017/18 financial year.

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## Service contracts and policy on payment for loss of office of the Executive Directors

The executive directors' services agreements normally continue until the Directors' agreed retirement date or such other date as the parties agree, are terminable on 3 months' notice and provide no entitlement to the payment of a predetermined amount on termination of employment in any circumstances. If notice is served by either party the Executive director can continue to receive basic salary, benefits and pension related benefits for the duration of their notice period during which time the company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. Payments in relation to annual performance-related pay may be made, payable in cash, on a pro-rata basis, but only for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice. There is no entitlement to payments in relation to deferred performance-related pay, however, payments may be made at the discretion of the committee. Any performance-related pay (either in-year or deferred) paid would be subject to the normal performance-related pay targets, tested at the end of the year.

Directors' service contracts/letters of appointment are available for inspection at the company's registered office.

## Approach to recruitment remuneration

The committee's approach to remuneration is to pay no more than is necessary to attract appropriate candidates to the role. When setting the remuneration package for a new executive director, the committee will apply the same principles and implement the policy as set out in the future policy table. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. The maximum level of variable pay and structure of remuneration will be in accordance with the policy table. This limit does not include the value of any buy out arrangements. Different performance measures may be set initially for the annual performance-related pay, taking into account the responsibilities of the individual and the point in the financial year in which they joined.

For external appointments, the committee may structure an appointment package that it considers appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous position, taking into account timing and valuation and such other specific matters as it considers relevant. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the committee considers is required to provide reasonable compensation to the incoming director. If the director will be required to relocate in order to take up the position, it is the company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the committee.

In the case of an employee who is promoted to the position of director, it is the company's policy to honour pre-existing award commitments in accordance with their terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

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Non-executive director appointments will be through letters of appointment. Non-executive directors' fees, including those of the chairman, will be set in line with the policy for non-executive directors' remuneration.

## **Statement of consideration of employment conditions elsewhere in company**

The committee invites the Executive Directors to present in its meeting in March on the proposals for salary increases for the employee population generally and on any other changes to remuneration within the group. The Executive Directors consult with the Committee on the KPIs for executive directors' performance-related pay and the extent to which these should be cascaded to other employees. The Committee is also provided with data on the remuneration structure for senior management (other than directors) and uses this information to work with the Finance Director to consider consistency of approach throughout the company. There is no set relationship between director and employee pay.

The Committee does not consult with employees when drawing up the directors' remuneration policy set out in this part of the report.

## **Statement of consideration of member views**

The company remains committed to member dialogue and takes an active interest in understanding voting outcomes. The Chairman of the remuneration committee presents the remuneration policy to the members at the AGM, prior to approval. Questions and comments are invited and members are offered the opportunity to discuss any issues on a one-to-one basis. Any feedback received from members is considered when setting the directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3-year policy approval cycle.

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## Policy for Non-executive directors

The following table provides a summary of the key components of the remuneration package for non-executive directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual Fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	<p>The chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the senior independent director.</p> <p>Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate.</p> <p>NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.</p>	<p>Fee levels for incumbents for 2018/19 are as follows:</p> <p>Chairman £77,320p.a. NEDs £33,500p.a.</p>	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms-length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A	There are no provisions for the recovery of any sums paid or the withholding of any payments.

The Non-Executive Directors' are appointed for an initial three-year term and normally serve two terms or in exceptions three. Their letters of appointment require one month's written notice for early termination by either party. There is no provision for compensation in the event of early termination of their appointment.