

NESO

Remuneration

Policy

April 2025

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1. Statement of Purpose, Scope and Principles

This section sets out to cover the principles followed when setting remuneration for its employees (for management and the wider workforce).

The purpose of this policy is to describe the principles, practices, procedures and systems NESO follows when remunerating NESO employees.

Our policy aim is to ensure that how we structure remuneration and how we make decisions on annual and long-term reward plans are compatible with and fully support:

- attracting, motivating and retaining employees while not over-paying; the key elements of remuneration are targeted broadly at mid-market of our peer group of general industry and energy services organisations. Remuneration can be above mid-market for specialist roles and hot skills when a failure to recruit or retain critical, rare and in demand skills would undermine or jeopardise the ability of NESO to perform its statutory duties effectively. In all cases we consider our position as a public corporation and have regard to the principles of Managing Public Money
- ensuring we pay our employees in a way that incentivises stretching financial and operational performance, reflecting the status of the organisation as a public corporation and within the risk appetite set by the NESO Board
- ensuring that all our employees have annually set / reviewed objectives and development plans, with individual performance recognised and rewarded
- being fully aligned to the delivery of our regulated Business Plan (including the expectations set by Ofgem through the Business Plan determinations process), the fulfilment of NESO's licence obligations and the impact we have on the cost to the consumer
- creating a clear and meaningful link between senior staff incentivisation and key outcomes under NESO's regulatory framework, including Ofgem's annual performance assessment
- actively supporting our strategy, ethics, values, and contribution to society in the areas where we operate; and

- this policy will be kept under review by the Remuneration committee in respect of its aims taking into account the views of the NESO Board, our shareholder, the regulator and wider industry stakeholders.

To ensure internal alignment and common purpose, we apply the same broad architecture to the remuneration of our whole employee population. Some elements of remuneration for our non- management (“Staff”) population are subject to collective agreements with the recognised Trade Unions.

2. Remuneration Framework

Remuneration for Leadership

LTPP Award ²							
Role	APP ¹ Target/Max % of salary	Target award range % of salary	Pension ³	Benefits Allowance	PMI ⁴	Holiday	Other benefits
Executive Directors	CEO/ COO 32.5%/65% CFO 25%/50%	65% – 90%	CEO: 20% EDs 12%	£12,000	CEO & COO: Family EDs: Self	28 days plus public holidays	We offer a savings plan, employee assistance program and a flexible benefits scheme
Executive 1 ⁵	25%/50%	55% – 75%	12%	£12,000	Self		
Executive 2 ⁵	17.5%/35%	40% – 60%	12%	£8,500			
Senior Manager	10%/20%	6	Up to 12% (based on double match)	£6,000			
Manager	7.5%/15%	6		-			

Notes to the table

1 Annual Performance Plan. The APP has a threshold payment level not exceeding 50% of the target APP opportunity. The Remuneration Committee will determine, considering the targets set, the actual threshold level of payment each year.

2 Long-term Performance Plan. The LTPP has a threshold payment of 70% of the target award level (see table above for target award level) and a maximum payment of 130% of the target award level. Actual payment is determined by performance targets measured over a three-year period and set by the Remuneration Committee at the time awards are made.

3 **Pension.** Externally hired employees will participate in a Defined Contribution (DC) arrangement with a maximum of 12% employer contributions. Entitlements of 20% of base salary (CEO) and 15% of base salary (Executive) exist, alongside a Defined Benefit scheme closed to new members for the COO which provides benefits at 1/80th and a 3/80th lump sum.

4 **Private Medical Insurance.** Externally hired employees will receive employee only private medical insurance (PMI). Some entitlements exist at family cover level for Executives.

5 Two executives receive different terms for APP and LTPP as a result of their contract of employment.

6 A small number of Senior Managers and Managers may be selected to participate in a discretionary performance retention scheme. This award is made by the Executive Committee and under the oversight of the Remuneration Committee. It applies to a small number of colleagues each year, not as a regular annual award and related to critical skills or to acknowledge exceptional performance or succession planning. Up to 15% of the senior management population may be invited.

Remuneration for Staff

The staff terms and conditions outlined below are the subject of a collective bargaining arrangement between the recognised Trade Unions. The terms and conditions negotiations are governed by the Executive Committee within the terms of the Remuneration Policy.

The below reflects the current Staff pay deal with the Trade Unions for the performance year ending 31 March 2025:

Role	Performance bonus	Pension	Holiday	Other benefits
Levels 1-8	Below Target: 0% On Target: 3% Above Target: 4%	Up to 12% (based on double match)	26 days plus public holidays	We offer a savings plan, employee assistance program and a flexible benefits scheme

3. Annual Remuneration Increases

This section covers the approach taken to annual increases in remuneration for its employees (for management and the wider workforce).

Executive and senior management

Base salary increases are generally reviewed annually and are targeted broadly at mid-market of our peer group. In addition, a number of other factors are taken into account:

- data, including base pay, business performance and individual contribution;
- the individual's skills and experience;
- scope of the role, including any changes in responsibility; and
- market data, including base pay and total remuneration opportunity in the relevant comparator group.

The remuneration of the Chief Executive Officer and Executive Committee (ExCo) of NESO are reviewed and approved annually by the Remuneration Committee.

The budget for annual salary increases for other leaders (Executive², Senior Leader, Senior Manager and Manager) is approved by the Remuneration Committee based on a recommendation from the Chief Executive Officer, Chief Financial Officer and Chief People Officer and allocated to individuals with reference to factors outlined above.

Staff salaries

Budgets and the allocation of annual salary increases for our Staff population are subject to collective agreements in place at the time as per the national collective bargaining framework agreed between management and recognised trade unions. The broad aim is to apply a similar approach to annual pay increases across the whole employee population.

Non-Executive Director fees

NESO independent non-executive directors receive a flat monthly fee for their services. Non-Executive Director remuneration is approved by the shareholder and reviewed on a regular basis.

4. Diversity, Equity, Inclusion and Belonging (DEIB)

We are committed to working to ensure all people are treated fairly and given the opportunity to thrive at work. Our vision is to build and develop an inclusive culture and a diverse workforce that is fully representative of the communities we serve and because it means we can attract talent from as wide a population as possible and will make better decisions and recommendations by having diversity in our business.

We will use a range of statutory and voluntary reporting and analysis to test that our practices are fair and address any issues which are identified. This includes conducting Gender and Ethnicity Pay gap analysis and ensuring our DEIB plans include actions to

improve access to career opportunities and progression for employees with protected characteristics under the Equality Act 2010 and other underrepresented and disadvantaged groups.

The Company operates a structured process for the evaluation of jobs using a recognised job evaluation framework to ensure that job size and accountabilities are clearly defined and linked to market information. Guidance is provided upon recruitment for the assignment of an initial salary and subsequent progression and period checks are applied to salary increase proposals to identify and mitigate the risk of unfair allocation of salary or bonus payments. Managers are supported to identify and address any pay discrepancies during the salary review process and the company has formal processes which enable employees to raise concerns about pay and have these investigated. Staff whose reward is governed by collective bargaining agreement with the trade unions have salary scales and transparent progression criteria which are negotiated with the trade unions. These provide clear and transparent criteria for assignment of salary on appointment and progression within the salary range.

We For more information about our commitment to being a responsible employer, visit our website at <https://www.neso.energy/about/our-people>.

5. Performance Related Remuneration

This section covers the principles and methodologies for awarding performance related remuneration.

Performance based elements of remuneration are linked to both business performance measures and individual performance and typically comprise an annual element (the Annual Performance Plan, APP) and a longer-term element (the Long-Term Performance Plan, LTPP).

The individual and company performance related targets and outcomes (short and long-term) for the CEO and members of the Executive Committee are approved by the Remuneration Committee of the NESO Board. These will be set with due reference to the business plans published by NESO and the business plan determinations made by the regulator, and other objectives deemed appropriate by the Board in ensuring that the business meets its aims and objectives as established through the business plan process with the regulator, our shareholder and energy industry.

Short term incentives

The Annual Performance Plan (APP) rewards for achievement against overall business performance metrics, achievement against strategic and individual objectives measured over a single financial year. Performance measures and targets are normally

agreed at the start of each financial year and are aligned with NESO strategic business priorities. Targets are set with reference to the budget and annual business plan, the Business Plan developed in consultation with the wider industry, and which is reviewed and approved annually by the Board, and the performance expectations set in Ofgem's Business Plan determinations. Performance targets are set for threshold, target and maximum performance.

Individual performance will be determined by an assessment of the achievement of objectives set at the start of the financial year and their demonstration of leadership behaviours and NESO values.

The achievement of stretch performance across all measures or targets will result in the maximum APP award of double of target at leadership levels. Threshold performance will result in a payment of up to 50% of the target payment. APP awards are normally paid in June. Awards are subject to malus and clawback provisions.

Staff Performance bonuses are determined by collective bargaining agreements between management and joint trade unions and are paid in July.

Long term incentives

NESO operates a cash-based LTPP under which awards may be granted to executives and senior leaders each year, with the intention to provide an appropriate incentive to NESO employees and to encourage outstanding long-term performance of the NESO business and achievement of our longer-term strategic priorities. These awards are targeted to Executive Leaders who hold direct accountability for the fulfillment of elements of NESO's strategy and objectives.

Vesting of awards is determined by strategic performance targets measured over three financial years with vesting on the third anniversary of the award subject to determination of performance against targets.

Performance measures are selected, and targets are set with reference to the longer-term strategy and business plan. Performance targets are set by the Remuneration Committee for each award at the time the award is granted.

Performance targets are set for threshold, target and maximum performance. The target payment is set for each individual as a percentage of salary. The range within which target award levels can be set varies depending on the level of the participant (Executive Director, Executive 1, Executive 2) (see table above). 70% of the target level of the award vests for achieving the threshold targets set, and 130% of the target level of award vests for achieving maximum stretch performance targets.

LTPP awards are subject to malus and clawback provisions.

Performance retention awards

In addition, the Executive Committee operate a performance retention scheme under the supervision of the Remuneration Committee for a small number of key managers who are critical to business plan delivery and NESO's strategic goals. Individuals are periodically invited to the scheme but not on a regular basis, because they are expected to play a key role in achieving the organisation's strategic objectives over the longer term and this provides for an additional retention bonus. The target level of bonus will be determined at grant and between 10 – 20% of salary payable after a period of 3 years. The actual level of payment earned will be based on the average measure of business performance as measured by the scorecard in place for each year of the schemes operation.

6. Assessing Performance and the use of Discretion

NESO's Remuneration Committee (acting on behalf of the NESO Board) will assess the performance of the company overall, and individuals within the Executive Committee in relation to their individual objectives. These objectives, and the associated performance assessment, will aim to incentivise the delivery of key company objectives, including NESO's Business Plan (and associated regulatory expectations), as determined by the Remuneration Committee.

In their assessment of performance, the Remuneration Committee will take account of quantitative and qualitative data alongside, as appropriate, feedback from other key stakeholders. A material factor in the Remuneration Committees' assessment and decision-making for senior staff will be the annual performance assessment of NESO provided by Ofgem.

The Remuneration Committee will have discretion to adjust incentive payments where it deems appropriate, whilst considering the principles in Chapter 1 of this policy. This could, for example, be utilised to reduce performance related pay where there has been a confirmed enforcement decision by Ofgem, particularly in cases where this breach has contributed to material consumer or industry harm. It could also be used to increase performance related pay where, for example, new, additional or unplanned activities delivered increased consumer value or to recognize exceptional achievement in dealing with specific, unplanned or unforeseen situations or events.

Before remuneration outcomes for the Executive Committee are finalised, the Remuneration Committee Chair will engage with the Ofgem Chair and CEO to explain how Ofgem's input has been taken into account.

The decisions reached by the Remuneration Committee and the basis for them will be clearly and transparently explained in the Remuneration Report published in NESO's

Annual Report and Accounts. This will include an explanation of how Ofgem’s annual assessment of NESO’s performance was taken into account.

Non-Executive Directors

The NESO independent non-executive directors do not participate in variable pay arrangements and their remuneration is not linked to performance standards.

7. Employee Benefits

This section covers the principles and methodologies for awarding any other employee benefits.

Benefits

Benefits for Executives and Senior Managers include a benefits allowance, and private medical insurance.

The wider employee population are eligible for:

- life insurance and ill-health benefits;
- opportunity to purchase additional benefits under flexible benefit schemes available to all employees; and
- opportunity to participate in the NESO Workplace ISA Savings plan.

Pension

Externally hired employees will participate in a Defined Contribution (DC) arrangement with a maximum of 12% employer contribution under a double-matching structure. Executives and senior leaders may alternatively choose to receive cash in lieu.

In cases of internal promotion, NESO will recognise Defined Benefit (DB) pension arrangements of existing employees where these have been provided under an existing arrangement and other contractual arrangements.

In line with market practice, pensionable pay for Defined Contribution employees is basic salary only.

8. Recognition

All employees are eligible to participate in the NESO recognition program. Awards in the form of thank-you recognition or vouchers may be made to recognise the significant efforts of individuals at all levels of our organisation, particularly those in operational

roles or on the front lines, who contribute to service excellence. These awards are designed to acknowledge the valuable contributions of our diverse workforce.

Non-Executive Directors

Non-Executive Directors do not participate in incentives, pension or any other benefits. However, they are eligible for reimbursement for all Company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC.

9. Remuneration Ratios

When deciding remuneration for NESO Executives and senior leaders, the remuneration of the wider workforce is considered, including statistics like the pay ratio between senior management and the rest of the organisation. This ratio compares the CEO's pay to the lower quartile, median, and upper quartile of UK employees' pay, following the Companies (Miscellaneous Reporting) Regulations 2018.

10. Policy Review

This policy will be kept under review by the Remuneration Committee in respect of its aims and efficacy and taking into account the views of the NESO Board, our shareholder, the regulator and wider industry stakeholders.