

SOUTH EAST WATER LIMITED (Registration No 2679874)

**TERMS OF REFERENCE OF THE
REMUNERATION COMMITTEE**

1. Membership

1.1 The committee shall comprise at least three members, all of whom shall be non-executive directors. A majority of the members of the committee shall be independent non-executive directors. Members of the committee shall be appointed by the board in consultation with the chairman of the committee.

1.2 Only members of the committee have the right to attend committee meetings. However, other individuals such as the Managing Director, the head of human resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.

1.3 Appointments to the committee are made by the board and shall be for a period of up to three years, which may be extended for further periods of up to three-years, provided the director still meets the criteria for membership of the committee, except that a non-executive director representing a shareholder shall be member of the committee for as long as she or he remains a director of the company or until her or his appointment to the committee is ended for any reason.

1.4 The board shall appoint the committee chairman who shall be an independent non-executive director. 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 who would qualify under these terms of reference to be appointed to that position by the board. The chairman of the board shall not be chairman of the committee. If the numbers of votes for and against any proposal are equal, the chairman of the committee shall have a casting vote.

2. Secretary

The chairman of the committee or his or her nominee shall act as the secretary of the committee.

3. Quorum

The quorum necessary for the transaction of business shall be three, two of whom must be independent non-executive directors. 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.

4. Meetings

The committee shall meet at least twice a year and otherwise as required.

5. Notice of meetings

5.1 Meetings of the committee shall be called by the committee chairman or the secretary where the chairman has designated a nominee to act as the secretary in accordance with clause 2.

5.2 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, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to committee members and, as appropriate, to other attendees at the same time.

6. Minutes of meetings

6.1 The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.

6.2 Draft minutes of committee meetings shall be circulated promptly to all members of the committee.

7. Annual general meeting

The committee chairman should attend the annual general meeting, if any, to answer any shareholder questions on the committee's activities.

8. Duties of the Remuneration Committee

The committee shall:

8.1 determine the framework or broad policy for the remuneration of the company's Managing Director, the executive directors, the chairman of the board (including pension rights and any compensation payment), and shall also recommend and monitor the level and structure of remuneration of such other members of the executive management as it is designated to consider. The remuneration of independent non-executive directors shall be a matter for the chairman of the board in consultation with shareholders and the Managing Director. No director or manager shall be involved in any decisions as to their own remuneration;

8.2 in determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the South East Water Corporate Governance Code ("SEW Code") and the UK Corporate Governance Code ("UK Code") and associated guidance. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the sustainable success of the company;

8.3 when setting remuneration policy for directors, review and have regard to the remuneration trends across the company or group, especially when determining annual salary increases;

8.4 review the ongoing appropriateness and relevance of the remuneration policy;

8.5 within the terms of the agreed policy and in consultation with the chairman and/or Managing Director, as appropriate, determine the total individual remuneration package of each executive director, the company chairman and other designated senior executives with specific emphasis on the design and determination of annual performance bonuses;

8.6 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within any budgetary restraints imposed by the board;

8.7 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee;

8.8 approve the design of, and determine targets for, any performance related pay schemes operated by the company and approve the total annual payments made under such schemes;

8.9 *Not used.*

8.10 determine the policy for, and scope of, pension arrangements for each executive director and other designated senior executives;

8.11 ensure that contractual terms on termination, and any payments made, are fair to the individual, and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;

8.12 oversee any major changes in employee benefits structures throughout the company or group;

8.13 work and liaise as necessary with all other board committees.

9. Reporting responsibilities

9.1 The committee chairman shall report to the board on its proceedings as appropriate on all matters within its duties and responsibilities.

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 The committee shall produce a report of the company's remuneration policy and practices to be included in the company's annual report and shall consider whether

and how to take account of the requirements that apply to the directors' remuneration report for a quoted company.

10. Other matters

The committee shall:

10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

10.2 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;

10.3 give due consideration to laws and regulations, the provisions of the SEW Code, the UK Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;

10.4 arrange for periodic reviews of its own performance and, at least annually, review its 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.

11. Authority

11.1 In connection with its duties, the committee is authorised by the board to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference.

11.2 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.