

TERMS OF REFERENCE
OF
THE REMUNERATION COMMITTEE
(being a Committee of the Board of Directors of Northumbrian Water Limited)
(the “Committee”)

In these terms of reference:

“**Company**” or “**NWL**” means Northumbrian Water Limited.

“**NWL Board**” means the board of directors of Northumbrian Water Limited.

“**NWL Group**” means the Company, its immediate parent company, and its subsidiaries.

“**Remuneration**” means the total individual remuneration package including, where appropriate, bonuses and incentive payments.

1. Membership

- (i) The members of the Committee shall comprise the Chairman of the Company, at least two of the three non-executive directors nominated by the Company as independent directors for the purposes of its Instrument of Appointment, at least one further shareholder-appointed non-executive director, and such other directors as the NWL Board shall appoint.
- (ii) The Chairman of the Company shall act as Chairman of the Committee.
- (iii) The Chairman may at his discretion invite any executive director, senior manager and/or adviser to attend all or part of meetings either regularly or by invitation as he shall think fit.

2. Secretary

The Company Secretary or his nominee shall act as the Secretary of the Committee.

3. Quorum

The quorum necessary for the transaction of business shall be two members, at least one of whom shall be one of the independent non-executive directors referred to in paragraph 1(i) and at least one of whom shall be a shareholder-appointed non-executive director. 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 not less than once a year and at such other times as the Chairman of the Committee shall require.

5. Notice of Meetings

- (i) Meetings of the Committee shall be called by the Secretary of the Committee.
- (ii) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers (where relevant), shall be forwarded to each member of the Committee and any other person required to attend, no fewer than five working days prior to the date of the meeting.

6. Reports and Minutes of Meetings

- (i) The Chairman of the Committee will report to the NWL Board the main items of business addressed at each meeting of the Committee.
- (ii) The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- (iii) The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- (iv) Minutes of Committee meetings shall be circulated to the members of the Committee.

7. Duties

The Committee shall:

- (i) determine the Remuneration of the Chief Executive Officer of the Company, its Chief Financial Officer, all executive and non-executive directors of the NWL Group and such other members of the executive leadership team of the NWL Group as the NWL Board considers appropriate;
- (ii) ensure that no director or manager shall be involved in any decisions as to his or her own remuneration. The Committee will also determine the Remuneration of the Company Secretary, in order to assure and maintain his or her independence;
- (iii) ensure that the policy developed is sufficient to attract, retain and motivate directors and management of the quality required to run the Company and the Group successfully, but avoid paying more than is necessary for this purpose or rewarding poor performance;
- (iv) in determining remuneration policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company and its subsidiaries are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The Committee shall also ensure that the remuneration of newly appointed executives is within the Company's overall policy;
- (v) determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for all employees whose Remuneration is determined by the Committee; and
- (vi) ensure that provisions regarding disclosure of Remuneration including pensions as set out in the Companies Act 2006 are fulfilled.

8. Authority

- (i) The Committee is authorised by the NWL Board to seek any information it requires from any employee of the Company in order to perform its duties.
- (ii) In connection with its duties the Committee is authorised by the NWL Board to select, set the terms of reference for and appoint remuneration consultants, at the Company's expense. When appointing consultants, the Committee shall have regard to the independence of such consultants and whether or not they have any other connection with the Company.
- (iii) The Committee can seek the advice and assistance of any of the Company's executives, subject to its duty in paragraph 7(ii) above. It shall also ensure that any such role of an executive is clearly separated from their role within the business, in order to avoid conflicts of interest.