

MODERN WATER PLC
(the “Company”)

TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE

In these Terms of Reference the following terms shall have the following meanings:

the “**Board**” means the Board of Directors of the Company; and

the “**Committee**” means the Remuneration Committee of the Company.

“Directors” means directors of the Company from time to time.

1 Introduction

These Terms of Reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK guidance on corporate governance and to assist the Committee in achieving best practice in corporate governance for the Company and its subsidiaries (the “**Group**”).

2 Membership and Attendance

- 2.1 The Committee shall be appointed by the Board from amongst the Directors and shall be made up of at least three members, of which at least two shall be independent non-executive Directors.
- 2.2 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 their number to chair any meeting of the Committee. The chairman of the Board shall not be eligible to be appointed as chairman of the Committee, but may be a member of the Committee if he or she was considered independent on appointment as chairman of the Board.
- 2.3 Only members of the Committee shall have the right to attend and vote at Committee meetings. However, other individuals such as the Chairman of the Board, the Company’s Chief Executive Officer, its Group Financial Controller, other Directors, external advisers , and representatives from the finance- and compliance functions of the Company may be invited to attend for all or part of any meeting as and when appropriate.
- 2.4 No member of the Board (or of the Committee) shall attend meetings of the Committee where his or her own remuneration arrangements are determined.
- 2.5 Members of the Committee shall be appointed by the Board for an initial term of three years, which may be extended for no more than two additional three-year periods.

3 Secretary

- 3.1 The Company’s company secretary or his or her nominee shall act as the secretary of the Committee (“**Secretary**”).
- 3.2 The Secretary shall also act as a co-ordinating intermediary between the Board and the Committee.

4 Quorum

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

5 Frequency of Meetings

The Committee shall meet at least twice a year and at such other times as the chairman of the Committee shall require. Meetings should be organised so that attendance is maximised.

6 Notice of Meetings and Proceedings at Meetings

6.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors of the Company, no fewer than five working days prior to the date of the meeting. An agenda of items to be discussed and supporting papers shall be sent to Committee members and to other attendees as appropriate in a timely manner to enable proper consideration to be given to the issues.

6.3 Meetings of the Committee may be conducted when the members are physically present or in the form of either video or audio conferences.

6.4 The chairman of the Committee should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and the Secretary shall minute them accordingly.

7 Minutes of Meetings

7.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings (including the names of those present and in attendance) and shall ensure the Committee is properly constituted and advised.

7.2 Minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all other members of the Board, unless a conflict of interest exists.

8 Annual General Meeting

8.1 The chairman of the Committee (or in his absence another member of the Committee) shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities and/or directors' remuneration.

9 Duties

9.1 The Committee shall not decide upon the remuneration of the non-executive directors (other than the chairman of the Board), which shall be decided upon by the Board in accordance with the limits set out in the constitutional documents of the Company.

9.2 The Committee shall:

9.2.1 determine and agree with the Board on behalf of the shareholders the broad policy for the remuneration of the Chief Executive, the chairman of the Board, the executive directors, other members of the senior management of the Group to whom the board has extended the remit of the Committee, which shall include directors and senior management of the Company's subsidiaries, and the Company secretary. No director or manager shall be involved in any decisions as to his or her own remuneration;

- 9.2.2 in determining the remuneration policy, take into account all factors which it deems necessary. The objective of such policy shall be to attract, retain and motivate the members of the executive management of the Group without paying more than necessary. The remuneration policy shall take into account the Company's appetite for risk and be aligned to the Company's long-term strategic goals. A significant proportion of the remuneration should be structured so as to link rewards to corporate and individual performance and be designed to promote the long term success of the Company;
- 9.2.3 review the ongoing appropriateness and relevance of the remuneration policy;
- 9.2.4 within the terms of the agreed policy:
- (a) and in consultation with the chairman of the Board and/or the Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
 - (b) determine the total remuneration package of the chairman of the Board.
- 9.2.5 review up-to-date remuneration information on competitor companies, as well as on other companies within the same sector as the Group but ensure that automatic increases are not implemented and consider relative performance, judging the implications carefully;
- 9.2.6 give guidance to the executive management in setting the levels of remuneration for the Group;
- 9.2.7 obtain shareholder approval before departing from the stated remuneration policy;
- 9.2.8 address any appropriate structural changes that need to be made to the remuneration policy in light of changes to relevant taxation legislation i.e., pensions taxation;
- 9.2.9 approve the design of, and determine targets for, any performance related pay schemes operated by the Group and approve the total annual payments made under such schemes. Any performance based remuneration arrangements should be clearly aligned with business strategy and objectives and be regularly reviewed. Overall arrangements should be prudent, well communicated, incentivise effectively and recognise shareholder expectations;
- 9.2.10 ensure that performance related elements of remuneration form a proportion of the total remuneration package;
- 9.2.11 work with the Company's Audit Committee in evaluating performance criteria;
- 9.2.12 use a consistent approach to performance measurement and explain in the remuneration report how this is achieved;
- 9.2.13 review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- 9.2.14 ensure that variable and share-based remuneration is not payable unless the performance measurement governing this is robust. The Committee shall also satisfy itself as to the accuracy of recorded performance measures that govern vesting of such remuneration;
- 9.2.15 determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- 9.2.16 ensure that any contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised;

- 9.2.17 be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
 - 9.2.18 review and consider all executive and management compensation agreements to ensure that they are reasonable and in the best interests of the Group, taking into consideration the financial circumstances of the Group and to the extent required by stock exchange/market policies, ensure that the Board submits executive and management compensation arrangements for review and prior acceptance;
 - 9.2.19 be aware of and oversee any major changes in employee benefit structures throughout the Group;
 - 9.2.20 agree the process to vet and authorise the reimbursement of any claims for expenses from the directors;
 - 9.2.21 ensure that rules and regulations regarding disclosure of remuneration including pensions are fulfilled;
 - 9.2.22 structure awards to promote as close as possible an alignment of participants with the risks and rewards faced by shareholders;
 - 9.2.23 ensure that any material payments that may be viewed as ex-gratia in nature are fully explained, justified and subject to shareholder approval prior to payment; and
 - 9.2.24 give due consideration to all applicable laws; and consider, in so far as is practicable given the Company's size and stage of development, the provisions and recommendations in the Combined Code on Corporate Governance, the Quoted Companies Alliance Guidelines, the Policy and Voting Guidelines for AIM Companies issued by the National Association of Pension Funds, and any other relevant guidance to ensure compliance with best practice.
- 9.3 The remuneration of non-executive directors shall be a matter for the the Board acting in accordance with the Company's Articles of Association.

10 Reporting Responsibilities

- 10.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall make available to shareholders these Terms of Reference by placing them on the Company's website. If the Committee appoints remuneration consultants to advise it, the Committee shall make available a statement of whether or not such remuneration consultants have any other connection with the Company.

11 Other Matters

- 11.1 The Committee shall, at least once a year, review its own performance, constitution and these Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 11.2 The Committee shall give due consideration to relevant laws and regulations, the provisions of the London Stock Exchange's AIM Rules for Companies, as appropriate.
- 11.3 The Committee shall consider any relevant guidelines when recommending any changes to these Terms of Reference.

12 Authority

- 12.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Group in order to perform its duties and call any members of staff to be questioned at a meeting of the Committee as and when required, and all such employees will be directed to co-operate with any request made by the Committee.
- 12.2 In connection with its duties the Committee is authorised by the Board to:
- (a) select, set the terms of reference and appoint remuneration consultants;
 - (b) seek legal or other professional advice;
 - (c) commission any reports or surveys which it deems necessary to help fulfil its obligations;
 - (d) secure the attendance of external advisers at its meetings;
 - (e) obtain up-to-date reliable information about remuneration committees,
 - (f) all at the Company's expense.
- 12.3 Although the Committee can seek the advice and assistance of any of the Group's executives, it needs to ensure that this role is clearly separated from their role within the business.

13 Procedure

Subject to the constitutional documents of the Company, the Committee shall determine its own procedures.

These terms of reference were reviewed by the Board of the Company on 10 March 2015.