

**TENDRING HUNDRED WATER SERVICES LIMITED
REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2006**

ADDENDUM TO THE REMUNERATION REPORT

The Remuneration & Employment Committee provides advice to the Board on the remuneration of the executive director and the senior management team. The Committee comprises:

Barbara Ruffell (Chairman)
Jeffrey Herbert

Basic Salary

The Committee aims to set a basic salary level for the executive director that it feels is sufficient to retain the director but is not excessive given our market position and the regulated nature of our business. Basic salaries are normally set at levels at or just below the medium level for comparable positions in other market sector companies. In setting the basic salary level for the executive director the following factors are taken into account:

- Relevant market data of comparable positions (with regard to both responsibility and size of organisation) as provided in an independent survey commissioned from Towers Perrin HR & Reward Consultants.
- The individual performance of each executive director along with their progression within their appropriate pay structure.
- The general trends and levels of remuneration within the Company ensuring that executive directors continue to be rewarded and motivated at an appropriate level in comparison to their colleagues.

Bonus Scheme

The executive director participates in a bonus scheme that is designed to ensure his full focus is on the key strategic requirements of the Company. The bonus scheme has been operating since 2002.

The maximum remuneration that an executive director can earn from the bonus scheme is set at 20% of basic salary. The Remuneration and Employment Committee determine the level of bonus awarded to the executive director.

The Committee takes into account, among other things, the measurements and reports provided by Ofwat which cover the performance of the company against the key measures of customer service, leakage and the Company's annual financial performance. The bonus scheme has been designed to encourage overachievement of the key targets against the following measures:

- Earnings before interest and tax (EBIT) and capital expenditure in comparison with the Company plan. This element normally can contribute up to 50% of the bonus achievable by an executive director. To achieve the maximum bonus the Company would have to achieve 105% of its original plan. There is a sliding scale below this.
- Performance by the Company against regulatory and customer service standards. This element normally can contribute up to 20% of the individual's bonus.
- Achievement of individual performance targets set for each executive director in respect of the year in relation to the improvement of the business. This element normally can contribute up to 30% of the bonus available.

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ADDENDUM TO THE REMUNERATION REPORT (continued)

At the end of the year the results of the Company and the performance of the executive director is carefully considered by the Committee and a non-pensionable bonus, if any, awarded. There is no long term incentive plan.

Other Benefits

A package of other benefits is offered to the executive director which is in line with market practice. This includes membership of a private health scheme and a fully expensed company car or car allowance. The level of car corresponds to the medium level on offer by comparative organisations.

Share Options

Share options are occasionally awarded by the parent company, Veolia Environnement SA, against a broad range of criteria including:

- Seniority
- Performance of the Company
- The contribution of the executive director to the Company
- Performance of Veolia Water UK and Veolia Environnement SA.