


Meeting Date:	Thu, 29 Jul 2010 12:00	Proxy Deadline:	Tue, 27 Jul 2010	Type:	AGM	Issue date:	Thu, 15 Jul 2010
Meeting Location:	Bishops Suite, Ramside Hall Hotel and Golf Club, Carrville, Durham DH1 1TD						
Current Indices:	FTSE MidCap						
Sector:	Gas, water & multiutilities						

PROPOSALS	ADVICE
1 Receive the Annual Report Business Review Meets ASB (RS) guidelines in our view, and there is adequate disclosure of environmental and employment policies and environmental reporting. We have no governance concern which would lead us to oppose this resolution. Therefore, we recommend support.	For
2 Approve the Remuneration Report Disclosure is generally good. PIRC considers that all schemes should apply two performance criteria concurrently, though we welcome the inclusion this year of non-financial performance targets. We consider that the vesting scales are not sufficiently broad to be geared towards out performance. Combined awards are not excessive and salaries are at the bottom of the sector. Directors are now required to build up a significant shareholding, equal to 100% of basic salary over five years. Executives have one year rolling contracts with no predetermined termination provisions. Statement of mitigation made. Rating: BBB	For
3 Approve the dividend Final dividend of 8.5p proposed. Together with the interim dividend, total dividend for the year of 12.89p per share. Covered by earnings.	For
4 To elect Heidi Mottram Chief Executive, 12 months rolling contract.	For
5 To elect Margaret Faye Non-Executive Director. Independent by PIRC.	For
6 To re-elect Sir Patrick Brown Senior independent director, independent by PIRC.	For
7 To re-elect Chris Green Finance director. 12 months rolling contract.	For
8 To re-elect Claude Lamoureux Non-executive director. Not independent by PIRC as OTPP owns 26.72% of the issued share capital of the company. In addition, we consider there to be insufficient independent representation on the Board. We also have concerns over aggregate time commitments.	Oppose
9 To re-elect Martin Nègre Non-executive director. Not independent by PIRC as he was the CEO of the predecessor company from April 2000 to April 2001. In addition, we consider there to be insufficient independent representation on the Board. We also have concerns over aggregate time commitments.	Oppose
10 To re-elect Alex Scott-Barrett Non-Executive Director. Independent by PIRC.	For
11 To re-elect Sir Derek Wanless Chairman, independent on appointment.	For
12 Appoint the auditors Ernst & Young LLP proposed. No consultancy-related non-audit fees were paid during the year.	For

13	Allow the board to determine the auditors remuneration Standard proposal.	For
14	Approve Political Donations Approval sought to make donations to EU political organisations and incur EU political expenditure not exceeding GBP 50,000 in total. Acceptable proposal.	For
15	Issue shares with pre-emption rights General authority limited to one third of the issued share capital, and two thirds of the issued share capital if in connection with a pre-emptive rights issue. The requested authority follows the published guidance of the Rights Issue Review Group in connection with the ABI. We consider that there is sufficient independent supervision on the Board to monitor the use of the authority; and given that the company's articles require all directors to seek re-election annually regardless of events including share issues, we recommend support.	For
16*	Issue shares for cash Authority limited to 5% of the issued share capital and expires no later than the next AGM. Within recommended limits.	For
17*	Authorise Share Repurchase Authority limited to 5% of the issued share capital and expires no later than the next AGM. Within recommended limits.	For
18*	Notice of general meetings The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless certain conditions are met, in which case it may be 14 days. PIRC considers that all companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues; however, we recognise that the proposed change is permissible by the Companies Act and recommend support.	For
19*	Adopt new Articles of Association The new articles of association include amendments to bring them in line with the 2006 Companies Act concerning: the company's objects; articles which duplicate statutory provisions; authorised share capital and unissued shares; redeemable shares; authority to purchase own shares, consolidate and sub-divide shares and reduce share capital; notice of general meetings; remuneration of directors; chairman's casting vote; adjournment for lack of quorum; voting by proxies on a show of hands; voting by corporate representatives; borrowing powers; conflicts of interests; use of seals; and general changes. PIRC considers changes to be reasonable and safeguards under the Companies Act adequate. Given the importance of avoiding significant conflicts of interest, we welcome the Company's written commitment to reporting on an annual basis on the operation of its procedures for authorising conflicts and potential conflicts. In relation to borrowing powers, we support the company's move to codify limits. Generally, we feel these should be set in relation to capital reserves and not at an absolute limit (GBP 3b is proposed). However, the company has explained the relevance of the net debt to regulatory asset value (RAV) ratio in gearing considerations for the UK water industry. Given the low published target ratio (75%), a historical debt/RAV consistently close to this level, and given the fact that the proposed limit gives relatively low headroom for increases in borrowing in light of forward RAV under the new 5-yr OFWAT-regulated period, particularly once RPI is factored in, we recommend shareholders support the resolution.	For

* = **Special Resolution**

Directors

- There is insufficient independent representation on the Board.
- Sir Derek Wanless, the current Chairman, stepped down from his role as a non-executive director of Northern Rock and chairman of its audit and risk committees effective on 16th November 2007. As in the previous year's annual report, this previous position has not been disclosed. We consider that in the interest of transparency and openness to shareholders, recent previous non-executive positions should be disclosed.
- The chief executive is a member of the nomination committee. Although we acknowledge the input that an executive member can have, we consider that it jeopardises the committees ability to provide fully independent advice.

Remuneration

- Disclosure is generally good.
- PIRC considers that all schemes should apply two performance criteria concurrently, though we welcome the inclusion this year of non-financial performance targets. We consider that the vesting scales are not sufficiently broad to be geared towards out performance.
- Combined awards are not excessive and salaries are at the bottom of the sector.
- Directors are now required to build up a significant shareholding, equal to 100% of basic salary over five years.
- Executives have one year rolling contracts with no predetermined termination provisions. Statement of mitigation made.

Audit and reporting

- No non-audit fees were paid to the company's auditor during the year under review.

Company's Primary Objective and/or Strategy

- The company's strategy is to focus on the Group's core competences of water and wastewater management and deliver value to all its stakeholders. Its mission is to be the national leader in the provision of sustainable water and wastewater services.

Key Performance Indicators

- Financial KPIs include revenue, profit before interest, profit before tax, and net profit. Non-financial KPIs relating to customers, water quality, employees, and environment are included in the business review.

PIRC Analysis

- In our view, the business review meets the key best practice guidelines set out in ASB RS. The review provides information on the trends that are likely to affect the business going forward, and there is good disclosure regarding non-financial KPIs. Further disclosure of non-financial KPIs and targets is available on the company's website.

Environment

- The company discloses an extensive environmental policy and is committed to measuring and reducing its environmental impacts.
- Board level responsibility for CSR matters is identified.
- Appropriate stakeholder engagement procedures for environmental matters appear to be in place.
- The company has reported on various environmental KPIs and associated targets however we would welcome the introduction of absolute Group-wide values for such measures, where appropriate.

Employment

- The company's sustainable development policy addresses its values and objectives with regard to employees.
- Board level responsibility for CSR matters is identified.
- Appropriate stakeholder engagement procedures for managing employment related matters appear to be in place.
- The company has reported on various employment related KPIs and associated targets however we would welcome the introduction of absolute Group-wide values for such measures, where appropriate.

Community

- It is clear from disclosure that a community policy exists.
- Evidence of stakeholder engagement with the wider community exists.
- The company reports charitable donations of GBP 156,517 during the year, and political donations as defined under the PPERA 2000 of GBP 19,551 respectively.

Issue alert

- None as of the date of this report.

FINANCIAL PERFORMANCE

	2010 £	2009 £	2008 £
Year End	31 March	31 March	31 March
Earnings per share (p)	23.67	-2.45	30.52
Dividend per ordinary share (p)	13.24	12.79	12.07

FINANCIAL ADVISORS & COMPANY CONTACT

Company Secretary	Martin Parker
Company Address	Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ

PIRC CONTACT

Name	Ashim Paun
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Tel Number	

1.DIRECTORS

1.1 BOARD OF DIRECTORS

PIRC assesses a non-executive director's independence according to PIRC's shareholder guidelines. Comments represent PIRC's analysis based on information in the report and accounts. *A = audit committee, R = remuneration committee, N = nomination committee, C = CSR or Ethics Committee, * = committee chairman.*

Board changes during year (after previous AGM): Jenny Williams, non-executive director, retires from the board at the forthcoming AGM. Margaret Fay, non-executive director, was appointed to the board on 1 June 2010. Heid Mottram, chief executive officer, was appointed to the board 1 April 2010. John Cuthbert, managing director, retired from the board on 31 March 2010.

Sir Derek Wanless		Chairman			
Age:	n/d	Date Appointed:	2003	Committees:	R, N*
Shares:	65000	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Legal and General plc's Longevity Science Advisory Panel [Ch], Board for Actuarial Standards [member], ex-National Westminster Bank [Group CE]				
Comment:	Independent on appointment.				

Heidi Mottram		Chief Executive			
Age:	n/d	Date Appointed:	2010	Committees:	N
Shares:	0	Options:	0	LTIP:	0
Severance Entitlement	12 months rolling				
Other Positions:	ex-British Rail [General Management Trainee, Station Manager in Harrogate], ex-Midland Mainline [Operations Director], ex-Arriva Trains Northern [Commercial Director], ex-Serco-NedRailways [MD, Northern Rail Limited]				
Comment:					

Christopher Green		Finance Director			
Age:	n/d	Date Appointed:	2003	Committees:	
Shares:	169339	Options:	0	LTIP:	223510
Severance Entitlement	12 months rolling				
Other Positions:	None disclosed.				
Comment:	Joined the company in 1990.				

Sir Patrick Brown		Senior Independent Director			
Age:	n/d	Date Appointed:	2003	Committees:	A*, R, N
Shares:	43000	Options:	0	LTIP:	0
Severance Entitlement					
Other Positions:	Go-Ahead Group plc [Ch], Advisory Committee of Alexander Proudfoot UK [Ch], ex-				

Positions: Department of Transport [Permanent Secretary], ex-Property Services Agency [CE]

Comment: Independent by the company, independent by PIRC.

Margaret Faye		Non-Executive Director		
Age:	n/d	Date Appointed:	2010	Committees:
Shares:	0	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	One North East [Ch], Homes and Communities Agency [Board Member], Tees Valley Community Foundation [Patron], the Prince of Wales' Ambassador for the North East of England, ex-Tyne Tees Television [MD]			
Comment:	Independent by company, independent by PIRC.			

Claude Lamoureux		Non-Executive Director		
Age:	n/d	Date Appointed:	2006	Committees:
Shares:	25000	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	Cordiant Capital [Ch], Xstrata plc [dir], Maple Leaf Foods Inc [dir], Atrium Innovations Inc [dir], The Learning Partnership [dir], York University Foundation [dir], Industrial Alliance Insurance [dir], Financial Services Inc [dir], ex-Ontario Teachers' Pension Plan Board ('OTPP')[Pres and CEO], ex-Metropolitan Life [Financial exec]			
Comment:	Not independent by company, not independent by PIRC as OTPP owns 26.72% of the issued share capital of the company. We have concerns over aggregate time commitments.			

Martin Negre		Non-Executive Director		
Age:	n/d	Date Appointed:	2003	Committees: R, N
Shares:	70000	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	Ecofin Global Utilities Hedge Fund Limited [Ch], Ecofin Special Situations Utilities Fund [Ch], Ecofin North American Hedge Fund [Ch], Ecofin Water & Power Opportunities plc [dir], Bolux Utilities [dir], Mercurius Utilities [dir], EFMI Global Utilities and Infrastructure Funds plc [dir], EFMI UBAM Global Utilities 130/130 Fund [dir], Promethean plc [dir], Jean-Philippe Hottinguer & Cie [supervisory board member], ex-Northumbrian Services Limited (then known as Northumbrian Water Group plc) [CE]			
Comment:	Independent by the company, not independent by PIRC as he was the CEO of the predecessor company from April 2000 to April 2001. We have concerns over aggregate time commitments.			

Alex Scott-Barrett		Non-Executive Director		
Age:	n/d	Date Appointed:	2006	Committees: A, R*, N
Shares:	20000	Options:	0	LTIP: 0
Severance Entitlement				
Other Positions:	Lighthouse Group plc [NED], L'Arche [Trustee], Help for Heroes [Trustee], ex-Cazenove [analyst, corporate finance department, partner, director and COO of the firm's fund management division]			
Comment:	Independent by company, independent by PIRC.			

1.2 Board Composition (after AGM)

Directors	Number	% of board
Executive Directors	2	25.00
Independent NEDs	3	37.50
'Connected' NEDs	2	25.00
Other	1	12.50
Total	8	100.00

1.3 BOARD COMMITTEES (AFTER AGM)

	Number of members	% indp Co. View	% indp PIRC View	Meetings last year
Whole Board	8	50.00	37.50	7.00
Audit	2	100.00	100.00	3.00
Remuneration	4	75.00	50.00	3.00
Nomination	5	60.00	40.00	5.00

Number of NED-only meetings in year: 1.00

1.4 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. n/d = Not Disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: DIRECTORS	ANALYSIS
<p>A. There should be a clear division of responsibilities at the head of the company</p> <ul style="list-style-type: none"> a) There is a separate chairman and chief executive b) The chairman has not previously been chief executive c) There is a senior independent director 	<p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>B. The board should contain sufficient numbers of independent non-executives</p> <ul style="list-style-type: none"> d) There are at least three non-executives on the board e) At least a third of the board is independent by PIRC guidelines f) At least 50% of the board excluding the chairman are independent 	<p>Yes</p> <p>Yes</p> <p>No</p>
<p>C. All directors should be accountable to shareholders by facing regular re-election</p> <ul style="list-style-type: none"> g) All directors are required to seek regular re-election h) All directors face election every year 	<p>Yes</p> <p>No</p>
<p>D. There should be an independent and transparent appointments and review process</p> <ul style="list-style-type: none"> i) Nomination committee composition complies with PIRC guidelines j) Recruitment practices for new directors are transparent k) There is evidence that a process for succession planning exists and is regularly reviewed. l) Process for regular board and individual appraisals and outcome is disclosed m) NEDs should annually appraise the chairman's performance n) Individual director's attendance at board and committee meetings is disclosed o) There is evidence that training needs for the board are regularly reviewed and acted upon 	<p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>

1.5 Board Analysis

Comments on principle A

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

In our view, there is a clear and robust separation of powers at the head of the company.

Comments on principle B

Non-executives are central to an effective and accountable board structure. They should meet at least once a year without executives present (A.1.3) and the annual report should include reference to the number of such meetings. Shareholders may benefit from non-executives serving on the board who can add value whilst not having an outsider's independent perspective. However, such appointments need to be assessed as part of the board's evaluation of its own requirements. PIRC places great importance on there being sufficient number of independent Non-Executive Directors (NEDs) to be able to effectively counterbalance the executive element.

We have concerns over the level of independent representation on the board as 3 out of seven directors, representing less than 50% of the board (excluding the chairman) is not considered to be independent according to our guidelines.

Comments on principle C

Currently, directors are required to seek re-election every three year. However, a change to the Articles of Association of the company will be proposed at the forthcoming AGM to introduce annual re-election for all directors, which we welcome.

Comments on principle D

It is important that the process of board appointments is fully described, in order to demonstrate that appointments have been made on merit and against objective criteria. Boards should look to provide a balanced, meaningful report, bearing in mind the different skills, knowledge and experience the directors bring to the board. The appraisal process should be described for both non-executives and executives, including the criteria used and minimum requirements set. Appraisals should be undertaken in relation to individual directors, committees and the board as a whole, and general outcomes should be disclosed. The director or committee responsible for the process should be identified. Companies should consider the appointment of an independent third-party to conduct the review.

Nomination committee composition does not comply with PIRC guidelines due to the presence of the CEO.

2. DIRECTORS REMUNERATION

2.1 Board Remuneration

	2010		2009		2008
Non-executive directors		% change		% change	
Fees	358,000.00	0.00	358,000.00	5.00	340,000.00
Others			0.00		
Non-executives' total	358,000.00	0.00	358,000.00	5.00	340,000.00
Executive directors					
Salaries	547,000.00	5.00	520,000.00	8.00	480,000.00
Annual Bonus	210,000.00	130.00	91,000.00	-59.00	226,000.00
Other Performance Related					
Other Emoluments	33,000.00	194,017.00	17.00	-99.00	14,000.00
Executives' total cash	790,000.00	29.00	611,017.00	-15.00	720,000.00
Defined benefit and defined contribution	288,000.00	9.00	262,700.00	4.00	252,000.00
Share Option Gains			66,901.90		
LTIP Gains	103,955.05	12.00	92,335.70	-66.00	277,516.00
Compensation Payments					
TOTAL EXECUTIVES	1,181,955.05	14.00	1,032,954.60	-17.00	1,249,516.00

HIGHEST PAID DIRECTOR	2010		2009		2008
	John Cuthbert		John Cuthbert		John Cuthbert
Salary	295,000.00	0.00	295,000.00	9.00	270,000.00
Annual Bonus	114,000.00	119.00	52,000.00	-59.00	127,000.00
Other Performance-Related					
Other Emoluments	20,000.00	150.00	8,000.00	33.00	6,000.00
Total Cash	429,000.00	20.00	355,000.00	-11.00	403,000.00
Share option gains					
LTIP gains	59,718.00	-10.00	66,901.90	-63.00	181,815.00
Pension increase	172,000.00	28.00	134,000.00	-15.00	158,000.00
TOTAL	660,718.00	18.00	555,901.90	-25.00	742,815.00

Average Executive Director (annualised)	2010 of 2.0		2009 of 2.0		2008 of 2.0
Salary	273,500.00	5.00	260,000.00	8.00	240,000.00
Total Emoluments	395,000.00	29.00	305,509.00	-15.00	360,000.00

Comparative salary ranking

Highest paid director:	9th out of 9
Average executive:	9th out of 9
Comparator used:	FTSE AllShare Utilities

2.2 Executives' incentive bonus structure

Remuneration Advisers: Hewitt New Bridge Street

Scheme	Annual Bonus Scheme
Maximum Award	70% of salary.
Performance Conditions	The annual bonus plan recognises the interests of all of the Company's stakeholders rather than being focused solely on profit; 40% of the bonus is based on achievement of profit before tax, 5% based on overall performance assessment rating, 5% based on percentage of lost time through sickness, and 20% through disclosed bespoke personal targets.
Comment	Messrs Cuthbert and Green, and Ms Mottram, received awards of 38.5% of their salaries.

Scheme	Long Term Incentive Plan (LTIP)
Maximum Award	100% of salary
Performance Conditions	For awards made from December 2006 to December 2008: 50% of award depends on ROCE relative to that of other water and sewerage companies in England and Wales. 50% of award depends on TSR performance against FTSE250 over a three year period. Under both elements 30% will vest for median performance, and full vesting for upper quartile performance. For subsequent awards: 50% of the award is subject to relative TSR, measured against a bespoke FTSE 250 comparator group, where 30% of this part of the award will vest for median performance and 100% for upper quartile, with straight line vesting. 20% relates to ROCE, with 30% of this part of the award vesting for average three year ROCE of 6.3%, increasing on a straight line so that 100% vests for average ROCE of 6.75%. 20% relates to serviceability as measured by OFWAT for the four key asset classes, where all of this part of the award will vest for stable assessments in all four asset classes and 50% for three out of four, with no vesting below this level. 10% relates to customer satisfaction as per internal measurements, where 30% of this part of the award vests for customer satisfaction of 83% and 100% for 93%.
Comment	Awards worth 100% of salary were made granted the year to Chris Green.

2.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's Shareholder Voting Guidelines. It is based on disclosure in the report and accounts. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: REMUNERATION	ANALYSIS
<p>Executive remuneration should be determined by a formal and independent procedure</p> <p>1) Remuneration committee membership meets PIRC guidelines</p> <p>2) Where remuneration consultants are appointed, a statement should be made available of whether they have any other connections with the company.</p>	<p>No</p> <p>Yes</p>
<p>There should be full and transparent disclosure of remuneration</p> <p>3) Are executive share schemes' long term performance measures linked to non-financial KPIs?</p> <p>4) Pay elsewhere in the company is considered in determining directors' pay</p> <p>5) The intended balance of the pay package is fully described</p> <p>6) Duration of contracts and company liabilities on termination are given</p> <p>7) Compensation payments or significant changes in policy are fully explained</p> <p>8) Takeover provisions attached to share schemes disclosed</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p>
<p>Longer term incentives should provide rewards scaled towards superior performance</p> <p>9) Maximum vesting targets are challenging relative to performance required</p> <p>10) Minimum vesting targets are challenging relative to performance required</p> <p>11) Vesting scales are sufficiently broad and geared towards better performance</p> <p>12) There are at least two concurrent performance criteria one of which uses a comparator group or index</p> <p>13) Remuneration committee cannot amend share schemes without prior shareholder approval</p> <p>14) Remuneration committee has no discretion to determine payouts on a takeover</p>	<p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p> <p>n/d</p> <p>n/d</p>
<p>Remuneration structure as a whole should not be excessive</p> <p>15) Total potential rewards under all incentive schemes are not excessive</p> <p>16) Directors are required to build up a significant shareholding</p> <p>17) Schemes available to enable all employees to benefit from business success</p> <p>18) Other remuneration practices do not raise concerns</p> <p>19) Performance Period is 5 years or more</p> <p>20) If performance period is 4 years or less there is an additional holding period applied</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>No</p>
<p>Contracts policy should balance potential costs to the company with directors' interests</p> <p>21) No current directors have rolling contracts in excess of one year</p> <p>22) Contracts do not provide for liquidated damages in excess of one year's salary in any circumstances</p> <p>23) Future bonuses are not taken into account in determining compensation</p>	<p>Yes</p> <p>Yes</p> <p>n/d</p>

2.4 Analysis

Background data

Brokers consensus on future performance

Base EPS:24.68

Year 2: 28.6p (15.88%)

Average growth per annum over two years:7.94%

Average real growth per annum over two years (assumes RPI@3.5%):4.44%

Disclosure

Figures

Cash remuneration and pension contributions are clearly disclosed. No expected value calculation is provided.

Policy

The pay policy is explained in terms of the company's objectives, in particular the annual bonus is concerned with shareholders, customers and employees. Pay elsewhere in the company is considered in determining directors' remuneration. Information is given on contractual liabilities and non-executive pay, as well as the intended balance between different parts of the package.

Performance targets

Maximum awards are stated for all schemes. LTIP performance targets are disclosed, and a breakdown of components of the annual bonus is provided, and quantifiable annual bonus targets are stated for the year under review.

Disclosure rating: B

Balance of incentive and reward

Long term incentives

PIRC considers that all schemes should apply two performance criteria concurrently, though we welcome the inclusion this year of non-financial performance targets. We consider that the vesting scales are not sufficiently broad to be geared towards out performance.

Excessiveness

Combined awards are not excessive in our view, and average salaries are low for the comparator group. There is an all-employee share incentive scheme in place, and an employee bonus scheme based on company-wide targets.

Incentive/reward rating: B

Contracts

Executives have one year rolling contracts with no provisions relating to compensation. Any termination payments would be determined by the committee having regard to the circumstances of the termination. Mitigation statement made.

Contracts rating: B

Overall rating for remuneration report: BBB

3.1 Auditor's Remuneration

Auditors: Ernst & Young LLP

Date appointed: 01 January 2003

Audit partner:

Responsible since:

	2010	2009	2008
Statutory audit fee	0.30	0.30	0.30
Non-audit work undertaken by the auditors - PIRC category 1			
Audit-related, mandatory or regulatory	0.00	0.00	
Tax compliance	0.00	0.00	
Other non-audit work undertaken by the auditors - PIRC category 2			
Other tax services	0.00	0.10	0.10
Acquisition-related	0.00	0.00	
Other services	0.00	0.00	
Total non-audit fees (ex. category 1 work)	0.00	0.10	0.10
Total PIRC category 2 non-audit as percent of Statutory audit fee	0.00%	33.33%	33.33%

3.2 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: AUDIT	ANALYSIS
A. The auditors should be independent of the company and management	
a) No directors have a significant connection with the auditors	Yes
b) Audit firm is subject to regular fixed-term rotation	No
B. Non-audit fees should be disclosed and should not potentially affect independence	
c) An adequate breakdown of the nature of non-audit fees is provided	Yes
d) Level of non-audit fees do not raise independence concerns	Yes
C. Independent audit committee demonstrates accountability and expertise	
e) A fully independent audit committee exists comprising at least three members	No
f) Audit committee includes at least one member with significant financial experience	Yes
g) The audit committee report on its activities complies with PIRC guidelines	Yes
h) Audit committee's policy on awarding non-audit work is fully described	Yes
i) The audit committee should review "whistleblowing" arrangements	Yes
D. Effective Internal Controls	
j) There has been a review of the effectiveness of the internal audit arrangements	Yes

3.3 Audit and Reporting Analysis

Comments on principle A	<p>Ernst & Young LLP have been the Group's auditors since 2003. The audit engagement partner is subject to change every five years and was last changed in 2008.</p> <p>PIRC believes there is a risk that over time an auditor's familiarity with the audit client's affairs may result in excessive trust. If the same firm continues to hold the position of auditor for many years, then previous judgements are not subject to outside scrutiny. We do not consider that rotation of the audit partner, within the same firm, is sufficient. We continue to maintain that rotation of the audit firm after a period of five years is best practice.</p>
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Comments on principle B	<p>Concerning non-audit fees we continue to disagree with the view that audit firms can be employed to provide consultancy services to the management at the same time as undertaking a statutory audit on behalf of the shareholders. PIRC firmly believes that other commercial interests can compromise auditors in their ability to confront directors on difficult issues. We do however operate a materiality threshold for non-audit fees when one of the big four audit companies are engaged, and only when this threshold is exceeded will we make an assessment as to the excessiveness of non-audit work in relation to audit work.</p>
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Comments on principle C	<p>The Code requires that the committee should be provided with sufficient resources, that its activities should be reported in a separate section of the directors' report (within the annual report) and that the chairman of the committee should be present to answer questions at the AGM. PIRC believes that the audit committee's report is a cornerstone of good governance and that its approval should become a regular agenda item at the AGM of companies. When constructing the report, the board should be aware of the guidance provided in the Smith Report PIRC believes such a report should cover the issues dealt with by the committee in the year under review rather than merely describing the duties of the committee.</p>
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4. SHARE CAPITAL & SHAREHOLDER RELATIONS

4.1 AGM Control Structure

Type	Nominal Currency	Issued (millions)	Authorised (millions)	Par value
Ordinary shares	GBP	518.60	700.00	0.10
Limited voting ord shares	GBP			
Non-voting ord shares	GBP			
Preference shares	GBP			

Significant changes in issued capital: None.

4.2 Disclosed Ordinary Shareholdings (at 31 March 2010)

Directors' interests	0.01%
Ontario Teachers' Pension Plan Board	26.72%
Amvescap plc	15.46%
Pictet Asset Management SA	6.02%
Legal & General Investment Management Ltd	3.03%

4.3 Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: SHAREHOLDERS	ANALYSIS
A. Shareholders have an opportunity to vote on dividend policy	
a) Declared dividend or policy is put to the vote	Yes
B. Shareholders should have adequate information and access to all directors	
b) Sufficient biographical information on all directors is disclosed	No
c) Justification for new director appointments is provided	Yes
d) Meetings between NEDs and shareholders are reported	No
C. All ordinary shares should have equal rights	
e) Each ordinary share has equal voting rights	Yes
f) There is no controlling shareholder	Yes
g) No persons have the right to designate directors to the board	Yes
D. Voting by shareholders should be democratic and transparent	
h) All voting is conducted by poll	No
i) The levels of proxy votes have been disclosed	Yes
j) Steps taken in understanding of the views of major shareholders	No

4.4 Share Capital and Shareholder Relations Analysis

Comments on principle A

PIRC considers distribution policy fundamental both to the income requirements of investors and to a company's investment and financial planning. Shareholders have a clear financial interest in maintaining and increasing their income from dividends and other distributions, but without compromising the company's long-term future. The directors may be under pressure to increase short-term distributions, but they must exercise their duty to the company as a whole.

The Board is seeking shareholder approval for the dividend policy.

Comments on principle B

PIRC believes that shareholders should be prepared to engage with companies where they have concerns or where an issue is unclear, in order to convey their opinions and raise the quality of debate. In the same way, companies should welcome the opportunity to engage with shareholders and prospective investors.

Although in the Corporate Governance report the company again states that the Senior Independent Director Mr. Patrick Brown is available to those shareholder who wish to raise concerns over the board's activity, there remains no evidence of a framework within the company for engaging with shareholders on board practices and corporate governance concerns, and there is no reporting on meeting between non-executives and shareholders on such matters.

Sir Derek Wanless, the current Chairman, stepped down from his role as a non-executive director of Northern Rock and chairman of its audit and risk committees effective on 16th November 2007. As in the previous year's annual report, this previous position has not been disclosed. We consider that in the interest of transparency and openness to shareholders, recent previous non-executive positions should be disclosed.

Comments on principle C The Company meets best practice in this regard.

Comments on principle D

PIRC considers poll voting to be the most appropriate way for listed companies to undertake business at general meetings. Insertion of a provision in company Articles mandating poll voting on all resolutions at general meetings will avoid the need for a chairman to decide on use of his powers to call a poll in the event that those present at a meeting deciding on a different voting outcome to that suggested by the postal proxy vote.

5. OPERATING AND FINANCIAL REVIEW OR BUSINESS REVIEW

5.1 Best Practice

This provides our interpretation of compliance with key guidelines on best practice as set out in ASB Reporting Statement: Operating and Financial Review (January 2006). N.B. Only information in the company's OFR or Business Review is taken into account below except in interpreting guidelines (vii) and (ix) where information elsewhere in the annual report is also considered

BEST PRACTICE FRAMEWORK AND CRITERIA: OFR	ANALYSIS
A. Overview	
i) Does the company have an OFR or Business Review?	Yes
ii) Does the OFR/Business Review have a forward-looking orientation?	Yes
B. Business Nature, Objectives and Strategies	
iii) Does the company explain the market or regulatory environment in which it operates?	Yes
iv) Does the company explain its objectives and/or strategies?	Yes
v) Are the company's objectives and strategies linked to social, environmental or ethical (SEE) matters?	Yes
C. Analysis of Development and Performance	
vi) Does the company report main trends and factors affecting performance in the year under review AND future prospects?	Yes
vii) Does the company report on risks and uncertainties affecting long-term value?	Yes
viii) Does the OFR contain sufficient disclosure of material issues concerning stakeholders (apart from shareholders) that may affect performance?	Yes
D. Key Performance Indicators	
ix) Does the company disclose both financial and, where appropriate, non-financial key performance indicators in support of its analysis of past and future performance?	Yes

5.2 Analysis

iv) The company outlines its external environmental as it relates to the different economic, demographic and water resource characteristics of the largest of NWG's businesses, NWL, which operates in the north east and south east of England. The company also highlights that the current pressures within financial markets and the credit crunch has resulted in reduced availability of certain types of finance. Finally, the company outlines its regulatory environment, within the context of it being "a monopoly supplier of an essential public service". Specifically, it describes how it plans to position itself with respect to current and future regulations within the industry.

The company strategy is to be a national leader in the provision of sustainable water and waste water services and to deliver value to all stakeholders by being a leading performer in the industry. The company discloses three strategic priorities: maintaining strong reputation and relationships (creating shareholder value, quality customer service, delivering regulatory outputs); ensuring a stable financial profile and developing a culture of continuous improvement (rigorous risk management, sustainability, H&S and employment practices).

vi) As outlined in greater detail above, the company discloses information on its operating environment including the implications of regulation and the market environment on its businesses.

vii) Risks identified include regulatory risk, environmental, social and governance risks, affordability and

customer debt, water resources, changing weather patterns and employees.

viii) The company outlines its stakeholder relations approach by way of its Code of Ethics, which covers its relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators. Further, the company outlines CSR issues such as environment, customers, employees, within the context of how it impacts the business within the Operating Environment section of the OFR.

6. CORPORATE SOCIAL RESPONSIBILITY

6.1 Environmental Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: ENVIRONMENT	ANALYSIS
A. There should be a comprehensive, published policy a) Group-wide environmental policy published	Yes
B. There should be clear lines of accountability and management b) Is there board-level responsibility for environmental issues either in the form of a CR committee or a specific director bearing responsibility?	Yes
C. Procedures for stakeholder engagement should be evident c) Environmental standards required of suppliers d) Evidence of structured consultation process to gauge stakeholder views	Yes Yes
D. Companies should report fully on performance e) Target setting disclosed f) Performance evaluated against targets	Yes Yes
E. Audits, external standards and independent verification should be used g) Formal procedures in place for monitoring performance and evaluating outcomes h) Environmental reporting is externally verified	Yes No

6.2 Analysis

Comments on principle A	<p>All companies have environmental impacts, and PIRC expects every listed company to publish a comprehensive environmental policy. Publishing a policy provides a clear message both internally and externally. Such policy documents should be formal statements describing the group's approach to dealing with environmental issues in its operations.</p> <p>The company's discloses a comprehensive environmental policy on its website including its performance against pre-determined KPIs.</p> <p>A good policy statement should acknowledge the board's responsibilities on environmental issues; cover all group companies; include a commitment to appropriate reporting; and set out the board's objectives in addressing their main environmental impacts, particularly direct and indirect greenhouse gas emissions, energy use, water consumption and waste production.</p> <p>It is clear from the company's disclosure that such a policy exists.</p>
Comments on principle B	<p>There should be clear lines of accountability and management for environmental issues.</p> <p>The Group has set up the Corporate Responsibility Committee (CRC), a subcommittee of the board, comprised of non-executive directors, management</p>

team members and senior managers from the business. The role of the CRC is to overview the corporate responsibility policies and issues.

Comments on principle C As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives

Comments on principle D We would welcome the introduction of absolute Group-wide targets for greenhouse gas emissions, water and waste.

6.3 Performance Indicators - Environment

	Unit of measurement	2010	2009	2008	KPI in business review	Target set
a)	Greenhouse Gas Emissions - Direct					
b)	Greenhouse Gas Emissions - Indirect					
c)	Water Consumption					
d)	Landfill					

6.4 Employment Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: EMPLOYMENT AND HUMAN RIGHTS	ANALYSIS
<p>A. There should be a comprehensive, published policy</p> <p>a) Group-wide employment policy published</p> <p>b) Health and safety policy published</p> <p>c) Policy includes a commitment to equal employment opportunities so as to encourage diversity in the workforce</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>
<p>B. There should be clear lines of accountability and management</p> <p>d) Board level responsibility for human resource issues identified</p>	<p>No</p>
<p>C. Procedures for stakeholder engagement should be evident</p> <p>e) Trade union negotiating framework, works councils or similar strategic-level procedures for information and consultation</p> <p>f) Company undertakes regular employee satisfaction surveys</p>	<p>No</p> <p>Yes</p>
<p>D. Companies should report fully on performance</p> <p>g) Employment performance indicators are disclosed</p> <p>h) Target setting disclosed</p>	<p>Yes</p> <p>Yes</p>
<p>E. Audits, external standards and independent verification should be used</p> <p>i) Performance evaluated against targets</p>	<p>Yes</p>

6.5 Analysis

<p>Comments on principle A</p>	<p>All companies have employment impacts, and PIRC expects every listed company to publish a comprehensive employment policy. Publishing a policy provides a clear message to both internal and external stakeholders. Such policy documents should be formal statements describing the group's approach to dealing with employment issues in its operations.</p> <p>A formal employment policy statement should cover all group companies, acknowledge the board's responsibilities on employment issues, include a commitment to or evidence of appropriate reporting; and set out the board's objectives for addressing their main employment impacts</p> <p>It is clear from the company's disclosure that such policies exists.</p>
<p>Comments on principle B</p>	<p>There should be clear lines of accountability and management for employment and human rights issues.</p> <p>The Group has set up the Corporate Responsibility Committee (CRC), a subcommittee of the board, comprised of non-executive directors, management team members and senior managers from the business. The role of the CRC is to overview the corporate responsibility policies and issues.</p>

Comments on principle C

As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives

6.6 Performance Indicators - Employment

	Unit of measurement	2010	2009	2008	KPI in business review	Target set
a) Workforce Fatalities						
b) Company Spending on Employees' Training						
c) Employee Turnover	percent	6.5	6.4		Yes	Y

6.7 Community Investment Best Practice

This table sets out PIRC's assessment of the company's compliance with standards of best practice as set out in PIRC's shareholder voting guidelines. n/d = not disclosed.

BEST PRACTICE PRINCIPLE AND CRITERIA: COMMUNITY INVESTMENT	ANALYSIS
<p>A. There should be a comprehensive, published policy</p> <p>a) Group-wide community policy published</p>	<p>Yes</p>
<p>B. There should be clear lines of accountability and management</p> <p>b) Is there board-level responsibility for community issues either in the form of a CR committee or a specific director bearing responsibility?</p>	<p>Yes</p>
<p>C. Procedures for stakeholder engagement should be evident</p> <p>c) There is evidence that the company is forming partnerships with external bodies</p> <p>d) There is evidence that the company uses feedback to develop appropriate procedures</p>	<p>Yes</p> <p>Yes</p>
<p>D. Audits, external standards and independent verification should be used</p> <p>e) Company reporting is in accordance with GRI or has had external review</p>	<p>No</p>

6.8 Analysis

<p>Comments on principle A</p>	<p>The company should have a community investment policy in the form of a formal statement outlining the company's position on community involvement. Such a policy should include identification of the company's responsibilities to community stakeholders, the role the company plays in wider society and a description of the company's charitable and community investment objectives.</p> <p>The company should demonstrate it has: informed investors of relevant responsibilities for such issues within the company; established partnerships, where appropriate, with external bodies that may include charities, voluntary organisations, trusts, community support groups or local authorities; and set up a reporting framework to ensure that feedback from community stakeholders is used to develop future policy and procedures.</p> <p>It is clear from disclosure that such a policy exists.</p>
<p>Comments on principle B</p>	<p>All companies should evidence clear lines of accountability and management for community related issues</p> <p>The Group has set up the Corporate Responsibility Committee (CRC), a subcommittee of the board, comprised of non-executive directors, management team members and senior managers from the business. The role of the CRC is to overview the corporate responsibility policies and issues.</p>
<p>Comments on principle C</p>	<p>As part of ensuring stakeholder accountability, boards should have a structured process of consultation and engagement to gauge and respond to a variety of stakeholder views. Once opinions have been canvassed, they should form part of the review process for policy and objectives</p> <p>This is the case at the company.</p>

6.9 Performance indicators - Community Investment

	Unit of measurement	2010	2009	2008
a) Cash Donations (UK)	total in meeting currency	156517.0		
b) Cash Donations (Global)				
c) Other Company Giving (in kind)				
d) Political Donations (Europe)	total in meeting currency	19551.0		
e) Political Donations (outside EU)				

APPENDIX: COMPLIANCE WITH COMBINED CODE OF BEST PRACTICE 2006

Under the listing rules, UK companies are required to make the following disclosures. This table is PIRC's assessment of the company's statements.

Listing rule compliance

Listing Rule		
	a) There is a statement of how the company has applied the Combined Code's principles	Yes
	b) There is a compliance statement; specifying the code provisions with which the company has not complied, if any.	Yes
	c) The board considers that the company complied with the code in full for the whole period	Yes
	d) Is combined code compliance statement complete?	Yes

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