

Corporate governance report

Introduction and corporate governance statement

The Board believes best practice in corporate governance is an important tool in helping it meet its responsibilities. The Board considers that, during the year and up to the date of this report, it has complied with the main principles and provisions of the Combined Code 2008 (the Code). The Code is available to download from the Financial Reporting Council's website at www.frc.org.uk/corporate/combinedcode.cfm or, alternatively, printed copies can be obtained free of charge from FRC publications, tel: 020 8247 1264, email: customer.services@cch.co.uk

This report, together with the directors' remuneration report, describes how the Company has applied the principles of the Code during the year. The Group has provided the information required under Disclosure and Transparency Rule 7.2.6 within the section headed 'Information pursuant to the Takeovers Directive' in the directors' report and business review.

The board of NWL also maintains high standards of corporate governance and endeavours to comply with the Code, wherever practicable.

The Board also ensures that business is conducted in accordance with the Group's Code of Conduct, which addresses the Group's responsibilities to a range of stakeholders and for the environment. This Code of Conduct is on the Company's website.

The Board

The Board sets and implements the Company's strategy and ensures compliance with Group policies and legal and regulatory obligations. The Group's mission and strategy is set out in the directors' report and business review.

Board agendas are proposed by the Chief Executive Officer and Company Secretary, with input from NWL's management team, for approval by the Chairman.

The Company has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to the committees and management. The Company has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied within the Company to financial transactions. NWL has adopted its own version of these guidelines. Standing or Executive Committees can take decisions not delegated to specific committees between Board meetings. All directors receive notice of Standing Committee meetings and may participate if they wish. Decisions taken by the Standing or Executive Committees are reported at the next Board meeting.

The following table sets out the attendance of directors at Board and committee meetings during 2009/10:

	Board	Board (by telephone)	Nomination	Remuneration	Audit
Number of meetings	6	1	5	3	3
Sir Derek Wanless	6	1	5	3	3 ¹
Sir Patrick Brown	6	1	5	3	3
John Cuthbert	6	1	2	3 ¹	3 ¹
Chris Green	6	1	–	–	3 ¹
Claude Lamoureux	6	1	4 ¹	–	–
Heidi Mottram ²	1	–	1	1 ¹	–
Martin Nègre	6	1	5	3	–
Alex Scott-Barrett	6	–	5	3	3
Jenny Williams	6	–	4	–	3

Notes:

1. Not a member, but attended at the invitation of the Committee chairman.
2. Appointed to the Board on 1 March 2010.

A Board meeting, called at short notice and held by telephone conference, took place on 11 December 2009 to discuss the final determination.

At each meeting the directors receive reports from the Chief Executive Officer, the Finance Director and the chairmen of any committees which have met since the previous Board meeting.

The Chairman ensures that important issues are given enough time at meetings and that all directors can express their views. This enables full and vigorous discussion of key items.

The non-executive directors met formally once without the executive directors and are in regular contact with each other throughout the year. The non-executive directors also met once without the Chairman but did not consider additional formal meetings to be necessary.

Authorisation of directors' conflicts of interest

Directors have a statutory duty, under section 175 of the Companies Act 2006, to avoid a situation in which they have, or can have, a conflict of interest with the Company's interests. However, there is no breach of this duty if the Board has authorised the matter in question. The Articles permit directors (other than the director having the interest in question) to authorise any situation giving rise to a known or potential conflict. A register of the interests which have been authorised is maintained by the Company Secretary and is available at every Board meeting. The Company will follow emerging best practice in line with the General Counsel 100's guidance paper.

Board balance and independence

Eight directors served throughout the year – the Chairman, two executive directors, the senior independent non-executive director and four other non-executive directors. Sir Derek Wanless is the non-executive Chairman. The executive directors were John Cuthbert (Managing Director) and Chris Green (Finance Director). Sir Patrick Brown is the senior independent non-executive director and the other independent non-executive directors are Martin Nègre, Alex Scott-Barrett and Jenny Williams. Claude Lamoureux is also a non-executive director but is not independent as he was, until 1 December 2007, President and CEO of OTPP, which holds 27% of the issued share capital of the Company.

Heidi Mottram was appointed as an executive director on 1 March 2010 and took up her position as Chief Executive Officer on 1 April 2010, immediately following John Cuthbert's retirement. Margaret Fay was appointed as a non-executive director of NWG and NWL on 1 June 2010.

The Company complies with the Code's requirement that half of the directors, excluding the Chairman, are independent non-executive directors. The Chairman was independent on appointment. Biographical details of the directors appear on pages 58 and 59 and details of their service contracts are in the directors' remuneration report.

The Chairman and Chief Executive Officer have clearly defined written responsibilities which have been agreed by the Board. The Chairman leads the Board and creates the conditions for overall Board and individual director effectiveness, both inside and outside the boardroom. The Chief Executive Officer is responsible for running the Company's business on a day to day basis.

Sir Patrick Brown, as senior independent non-executive director, is available to shareholders who wish to raise any concerns and leads the non-executive directors in their evaluation of the Chairman's performance.

The non-executive directors bring to the Board many years of business experience as well as financial expertise and the ability and willingness to challenge and support the executive directors.

Corporate governance report continued

The General Counsel and Company Secretary, Martin Parker, assists the Board to ensure that good corporate governance compliance is achieved. He is also Company Secretary of NWL and is secretary to all Board committees.

Information and professional development

All directors have access to independent professional advice to assist them in the performance of their duties, at the Company's expense, and to the Company Secretary for advice and assistance. The Chairman, with the assistance of the Company Secretary, monitors the induction and training requirements of directors. All new directors receive an induction information pack and are offered site visits and meetings with managers. Managers from within the Group submit papers or give presentations at Board meetings. Water industry representatives meet the NWL board to discuss current issues.

The Company Secretary ensures that directors are kept informed and that information flows effectively within the Group by:

- keeping in regular contact with directors;
- sending Board papers to directors before each Board meeting;
- sending briefing packs to directors in the months when Board meetings are not held; and
- providing a directors' team room intranet site containing Board and committee papers, minutes, analysts' reports and reference and regulatory documents, to which all directors have access.

Performance evaluation

A full evaluation of the performance of the Board, its committees and of individual directors was conducted during the year. Having engaged an external consultant to conduct last year's evaluation, the exercise was conducted internally this year. Each director completed a detailed questionnaire prior to a one-to-one meeting with the Chairman. The questionnaire was prepared by the Chairman and Company Secretary and was designed to address strategic issues and succession planning, as well as the approach of the Board to operational and financial matters, the role of the non-executive directors and the quality of information received by the Board. The performance of NWL's board, committees and individual directors was evaluated at the same time. Except in relation to Heidi Mottram and Margaret Fay, who have been appointed directors since the last AGM and will seek election as directors for the first time at this year's AGM, the Chairman's comments on the evaluation of the directors seeking annual re-election at the AGM are provided in the Notice of Meeting. The comments of the Senior Independent non-executive director on the evaluation of the Chairman are also provided in the Notice.

External appointments

Executive directors have generally only accepted non-executive positions outside the Group where this would benefit either the Group or the local community. These positions have tended to be with educational institutions, economic regeneration groups or similar bodies. The Board has agreed that executive directors of the Company who are appointed to non-executive directorships of a more commercial nature may retain the fees, subject to obtaining the Chairman's consent before an appointment is accepted. Only one such external appointment per director will generally be permitted. On 1 November 2009, John Cuthbert was appointed as a non-executive director of Bellway plc. This appointment was made following John's decision to retire from the Group earlier in the year.

Board committees

The Board has Audit, Nomination and Remuneration committees to assist it in the performance of its duties. The Board sets the terms of reference of the committees and receives regular reports from their chairmen at board meetings. The terms of reference of committees are available on the Company's website or from the Company Secretary.

Remuneration Committee

The work of the Remuneration Committee and details of the directors' remuneration are set out in the directors' remuneration report.

Nomination Committee

The main duty of the Nomination Committee is to identify and nominate candidates to fill Board vacancies for approval by the Board. The Committee also reviews succession planning for the Board, NWL board and senior appointments and will make recommendations to the Board when appropriate. The Committee's usual policy is to use external recruitment consultants or to advertise in order to identify suitable candidates.

Following the announcement of John Cuthbert's retirement, the Committee initiated a search for a successor. Heidi Mottram was identified as a suitable candidate by recruitment consultants and then interviewed by a specially authorised sub-committee of the Nomination Committee. She then had discussions with the Finance Director before her appointment was recommended to the full Nomination Committee and then the boards of NWG and NWL.

In addition to the appointment of Heidi Mottram, the Committee also recommended to the NWG and NWL boards the appointment of Margaret Fay, as an additional independent non-executive director. The Committee felt that an additional non-executive with strong business and political contacts, especially in the north east, would be a valuable addition to the boards. Margaret Fay was regarded by the Committee as an ideal candidate for this role and she was, therefore, approached by the Company to discuss the opportunity.

The Committee also considered extensions to the appointments of non-executive directors on the NWG and NWL boards whose contracts for services expired during the year. An extension to the appointment of Sir Derek Wanless took him into his seventh year as a non-executive director of the NWG Board and, having been subject to a rigorous review as required by the Combined Code, the Committee remains satisfied with his performance. Non-executive directors are appointed for a term of one year and all directors are now subject to annual re-election at the AGM.

The members of the Nomination Committee are now Sir Derek Wanless (chairman), Sir Patrick Brown, Heidi Mottram, Martin Nègre, Alex Scott-Barrett and Jenny Williams, and the membership is compliant with the Code.

Accountability and audit Audit Committee

The Audit Committee members during the year were Sir Patrick Brown (chairman), Alex Scott-Barrett and Jenny Williams. Alex Scott-Barrett is a chartered accountant and the Board is satisfied that he has recent and relevant financial experience. On 1 April 2010, Martin Nègre was appointed as an additional member of the Committee.

The Committee's membership complies with the Code. The Chairman and executive directors are invited to Audit Committee meetings with the permission of its chairman but have no right of attendance. Managers from within the Group are invited to Audit Committee meetings to discuss issues relating to their areas of the business. During the year, the Committee met with both the external Audit Partner and Internal Audit Manager to discuss audit business, without the executive directors being present. The Committee remains satisfied that the internal audit function is able to operate with independence and is not under any pressure from the executive management of the Company to produce particular results.

The Committee members receive regular briefings from the external auditors to enable them to keep up to date on financial reporting standards.

Corporate governance report continued

The purpose of the Audit Committee is to assist both executive and non-executive directors of NWG to discharge their individual and collective responsibilities in relation to:

- ensuring the financial and accounting systems of NWG and its subsidiaries are providing accurate and up to date information on their current position;
- ensuring NWG's published financial statements represent a true and fair reflection of this position; and
- assessing the scope and effectiveness of the Group's risk management systems and the integrity of its internal financial controls.

During the year its work included:

- monitoring the integrity of the financial statements of the Company;
- reviewing the Company's internal controls (both financial and IT) by considering reports of both the internal and external auditors, directing questions to management and reviewing the financial risks and controls information provided to them on an annual basis, as detailed on pages 65 and 66;
- monitoring and reviewing the effectiveness of the internal audit function by reviewing the scope of the annual audit plan, the results of those audits and monitoring the completion of actions identified during the audit;
- monitoring and reviewing the performance and effectiveness of the external auditors, in particular, by reviewing the scope and costs of the audit process;
- reviewing the external auditors' independence by monitoring the extent of the provision of non-audit services and receiving reports from the external auditors;
- monitoring the potential impact and management of significant risks to the business using a risk methodology (meeting the recommendations of the 2005 Turnbull Review Group guidance) which sets out and rates all identified risks, including operational, external, financial, environmental, social and governance risks;
- reviewing the Committee's terms of reference;
- reviewing the Group's financial approval rules;
- reviewing the Group's tax strategy;
- reviewing NWL's contract terms;
- reviewing the Group's accounting and treasury policies; and
- reviewing the Company's interim management statements, half-yearly and preliminary results' announcements and final published annual report and financial statements.

Given the importance of NWL to the Group's business, the Committee works closely with the Audit Committee of NWL. In particular, both committees review significant regulatory reports for Ofwat and regularly review NWL's debt recovery strategy and performance. In addition, meetings were held with the Ofwat Reporter during the year to discuss the June Return process.

The Audit Committee chairman reports to the Board following each meeting of the Committee and committee minutes are circulated to the Board.

External auditors

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.

Non-audit services

The Committee has approved a procedure for the approval of non-audit services to safeguard the objectivity and independence of the external auditors, which complies with the requirements of the Auditing Practices Board's revised Ethical Standard No. 5. The external auditors are not permitted to provide bookkeeping, financial information systems design and implementation, or internal audit outsourcing services. Permitted services require prior approval, either from the Audit Committee chairman, if under £50,000, or from the Audit Committee, if over £50,000. The Company requires the auditors to report annually details of all non-audit services provided. A breakdown of the cost of audit and non-audit services provided by the auditors is set out in note 4 to the financial statements.

On 26 May 2010, Ernst & Young confirmed to the Audit Committee, in accordance with ISA 260 (Communication of audit matters to those charged with governance), that they have considered their relationship with the Company and that, in their professional judgement, the objectivity of the audit engagement partner and audit staff is not impaired.

Review of internal control

The Board believes that, as explained below, there are effective systems in place to identify and manage significant risks and that it receives sufficient information to enable it to assess these risks.

The Board has overall responsibility for maintaining a sound system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Regular reviews of the effectiveness of the internal control system are carried out in accordance with the 2005 Turnbull Review Group guidance. The actions necessary to address weaknesses and otherwise improve the system of internal control are communicated to management. Internal audit monitors implementation of these actions and reports back to the Audit Committee. This process has been in place throughout the year and up to the date of approval of the 2009/10 annual report and financial statements. There are inherent limitations in any system of internal control and even the most effective system can only provide a reasonable, and not absolute, assurance against material misstatement or loss.

The use of our standard accounting manual by finance teams throughout the Group ensures that transactions and balances are recognised and measured in accordance with prescribed accounting policies and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting pack by all entities in the Group ensures that information is gathered and presented in a consistent way that facilitates the production of the consolidated financial statements.

The Board has reviewed the effectiveness of the Group's system of internal control, as follows, during the year. The internal audit team manages a process whereby all of the financial controls within the Group are identified and certified by the relevant manager as having operated for the full year. As part of a programme of work (which is agreed with the Audit Committee), these controls are tested throughout the year. A report detailing any areas of concern is produced after each audit. As part of the same process all of the key business risks are identified. Each risk is assessed on an unmanaged basis, the controls in place to mitigate the risks are detailed and the risk is then re-assessed after these controls. An additional risk-mapping exercise undertaken during the year is described on page 50.

Internal audit's findings and recommendations are presented to the Audit Committee along with agreed actions. Internal audit updates progress against any agreed actions until the control weakness is resolved.

Organisational structure

The trading subsidiaries have their own boards of directors (the Subsidiary Boards) which are responsible for the operational and financial control of their own businesses. The Subsidiary Boards report to the executive directors and to the Company's Board on matters including major strategic, financial, organisational, compliance and regulatory issues.

The NWL management team manages the major business of the Group and, during the year, consisted of John Cuthbert (Managing Director), Chris Green (Finance Director), Graham Neave (Operations Director and on NWL board), Ceri Jones (Regulation & Scientific Services Director and on NWL board), John Devall (Water & Networks (South) Director), Ian Donald (Customer Services Director), Diane Morton (HR Director), Colin Price (Technical Director) and Henry Wilson (Waste water & Networks (North) Director). Heidi Mottram (Chief Executive Officer) joined the management team on 1 April 2010, following John Cuthbert's retirement. The NWL management team meets monthly to consider and discuss progress against annual and monthly financial and operational targets. It prepares an annual budget and business plan for consideration and approval by the NWL board. NWL operates a balanced scorecard system which monitors progress against KPIs and which covers all areas of operation of the business.

Corporate governance report continued

The Board is able to monitor the impact of environmental, social and governance matters on the Group's business, to assess the impact of significant risks on the business and to evaluate methods of managing these risks through reports it receives from the Subsidiary Boards and the Audit Committee. The environmental risks considered to be significant by the Board are described on pages 52 and 53, together with a summary of how NWL is managing these risks.

For a number of years, the Subsidiary Boards have performed a full annual business risk analysis to meet the recommendations of the 2005 Turnbull Review Group guidance. This methodology is described above in relation to the work of the Audit Committee. The results of the risk reviews are reported in detail to the Audit Committee and a summary is reported to the Company's directors. Accompanying the risk model is a detailed review of each company's internal financial controls along with either confirmation that the controls have operated throughout the year or details of any exceptions. Action points arising from these reviews are followed up as part of the internal audit process.

Some subsidiaries, such as NWL, consider risks more frequently. The executive directors consider significant risks in a structured way on a monthly basis, assessing the likelihood and potential impact of the relevant risks both before and after risk management measures have been put in place. Further details about how risks and uncertainties facing the Group are assessed and managed are included in the directors' report and business review.

On a monthly basis, the executive directors compare the actual operational and financial performance of each business with its plan and budget. Targets are set to measure performance and regular forecasts are made.

Information and reporting system

Each Subsidiary Board holds a copy of the Company's financial approval rules and terms of reference, which contain full details of the procedures for distribution of information and financial reporting. Each Subsidiary Board has developed financial control systems appropriate to its activities.

Budgets and business planning

The Group prepares detailed medium term business plans and annual budgets which are reviewed by the executive directors and submitted to the Board for approval. Business plans and budgets include an assessment of the key risks and success factors facing each business unit.

The approval of the Board is required for major investments, including those in new markets, and large capital expenditure programmes. The treasury strategy, which is approved by the Board, requires that investments are limited to certain money market and treasury instruments, and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counterparty. The Group's investment strategy aims to fix interest rates for part of the Group's borrowings and investments for periods determined by the forecast cash flow of the individual businesses. This manages the exposure to the risk of changes in short term interest rates. Foreign currency exposure is also managed as part of the treasury strategy approved by the Board.

Investor relations

The Company welcomes constructive communication with all its shareholders. Details of the Company's investor relations activities during the year are described in the directors' report and business review. Investor feedback reports from investor meetings, prepared by the Company's advisers, are considered at Board meetings and analysts' notes on the Company are made available to all directors on the Board's intranet team room. The Board believes that these methods of investor feedback provide the senior independent non-executive director and the other non-executive directors with a balanced understanding of the issues and concerns of major shareholders. The senior independent director is available to shareholders who wish to raise any matters of concern and the Chairman welcomes contact with any shareholders who have matters they wish to discuss. The Company has not received any requests from institutional shareholders to meet with non-executive directors.

All shareholders are encouraged to contact the Company with queries or suggestions. A welcome letter is sent to all new non-corporate shareholders, which includes information on services available to shareholders.

AGM

Shareholders are encouraged to attend the Company's AGM at which they can meet and question the directors. The Company will make a presentation at the AGM to highlight the key business developments and events during the year. The full Board is expected to be available at the AGM to answer shareholders' questions. Voting at the AGM will be on a show of hands but the proxy votes cast on each resolution will be displayed after each resolution has been voted on. If the voting on a show of hands produces a different result from that which would have been achieved on a poll, the Chairman will call a poll so that the result of the voting on that resolution reflects the wishes of the majority of shareholders. The proxy votes cast at each AGM are disclosed on our website.

Martin Parker

General Counsel and Company Secretary
1 June 2010

Directors' remuneration report

In this report, which will be submitted for approval at the AGM on 29 July 2010, we describe how the executive directors are remunerated. Those parts of the remuneration report which are subject to audit by Ernst & Young are marked 'audited'.

The Remuneration Committee

The role of the Remuneration Committee

The Remuneration Committee of the Board (the Committee) determines the remuneration and terms of employment of the Chairman of the Company, executive directors of NWG and NWL and a further seven senior managers, in accordance with a remuneration policy approved by the Board. The terms of reference for the Committee are published on our website at www.nwg.co.uk (in the 'about us: corporate governance' section) or a copy can be requested from the Company Secretary.

The Committee is always available to engage with major shareholders and their representatives to discuss remuneration matters. During 2009, the Remuneration Committee did consult with its larger shareholders, the Association of British Insurers and RiskMetrics on the change that has been made to the LTIP performance measures. This is described below.

Remuneration Committee members

The Committee members are Martin Nègre (chairman until 31 March 2010), Sir Patrick Brown, Anita Frew, Alex Scott-Barrett (chairman from 1 April 2010), who are all considered by the Company to be independent, and Sir Derek Wanless. The membership of the Committee was, therefore, compliant with the Combined Code throughout the year. Martin Parker, the Company Secretary, is secretary to the Committee.

External advice

The Committee continued to receive advice during the year from its appointed advisers, Hewitt New Bridge Street (HNBS), and also from the Managing Director (although never about his own remuneration). HNBS was paid £41,616 for these services in 2009/10 and continues to assist the Committee in maintaining best practice in relation to remuneration. HNBS did not provide any other services to the Company during the year.

The Committee's work in 2009/10

The Committee met three times during the year with 100% attendance by all members, to:

- set the remuneration package for the new Chief Executive Officer;
- discuss and approve the new policy on LTIP performance measures;
- agree bonus payments for 2008/09;
- set performance targets for executive directors and senior managers;
- agree salaries for 2010/11;
- determine the vesting percentage to be applied to the LTIP awards made on 21 December 2006 which vested on 21 December 2009; and
- grant LTIP awards on 4 January 2010 (to vest on 4 January 2013).

As the Committee works closely with NWL's remuneration committee, Committee papers and minutes are circulated to all NWL and NWG non-executive directors, who can give their views direct to the Committee chairman and can attend meetings if they wish.

Remuneration policy

The Committee considers the principles and provisions of the Combined Code when setting its policy and believes it is fully compliant. The policy of the Company is to provide remuneration that is sufficient to attract, retain and motivate directors of the quality required to run the Company successfully, while paying fairly. Although HNBS provides the Committee with detailed comparative data on other companies in the sector, the Committee is aware of, and avoids the risk of, remuneration being ratcheted up as a result of benchmarking exercises.

Consistent with its fair pay policy, when considering the remuneration packages of senior executives and directors, the Committee takes into account pay awards to other employees in the Group. The Committee also considers environmental, social, risk management and governance issues when setting remuneration terms.

The remuneration policy of the Committee is:

- that the setting of base salaries is largely influenced by individual contributions and internal relativities rather than external comparators (although for 2009/10 the Committee was influenced by general economic conditions);
- that the annual bonus plan recognises the interests of all of the Company's stakeholders (shareholders, customers and employees) rather than being focused solely on profit; and
- that management shares in the longer term value created for the Company's investors and the serviceability of the Company's regulated assets.

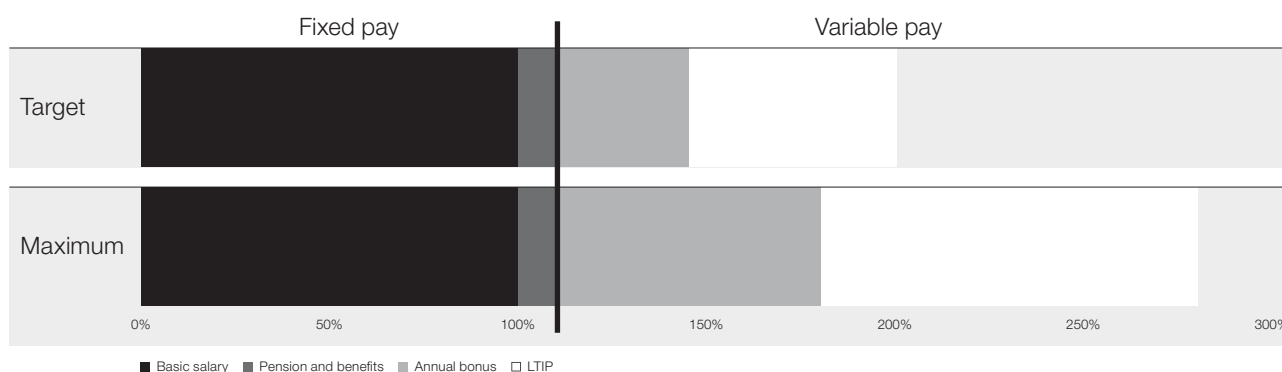
Elements of remuneration

The remuneration of the executive directors comprises:

- basic salary;
- benefits (including pension and participation in the Company's SIP);
- a performance related annual bonus; and
- annual LTIP awards.

In addition to reviewing each constituent element, the Committee reviews the remuneration packages as a whole to ensure that they remain appropriate in terms of structure and quantum. The chart below shows the composition of the new Chief Executive Officer's remuneration (as a percentage of basic salary) both at 'target' and 'maximum' levels of performance. Maximum performance assumes the achievement of maximum bonus and full vesting of LTIP awards.

Chief Executive Officer's remuneration



Directors' remuneration report continued

Basic salary and benefits

Basic salary is reviewed annually based on individual contributions and internal relativities. The Committee also has regard to market practice in other quoted water companies and similar sized companies more generally.

Current basic salaries, together with the previous year's salaries, are set out below:

	As at 1.4.2010	As at 1.4.2009	As at 1.4.2008
John Cuthbert	n/a	£295,000	£295,000
Chris Green	£228,000	£225,000	£225,000
Heidi Mottram	£320,000	n/a	n/a

The basic salaries of the executive directors were not increased for 2009/10. For 2010/11 salaries for senior executives have been increased by 1.3% (except for John Cuthbert who retired on 31 March 2010 and for Heidi Mottram who was appointed on 1 March 2010). This is the same as for all other employees.

Benefits provided to the executive directors comprise membership of pension schemes (as detailed below), car allowance and healthcare.

Pensions

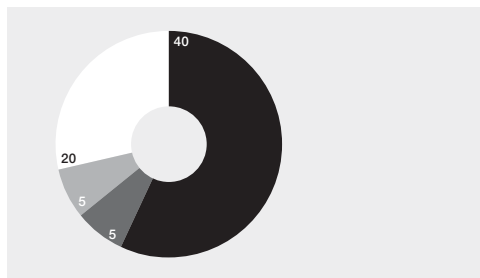
The main features of the Northumbrian Water Pension Scheme are set out in note 24 to the financial statements. Basic salary is the only pensionable element of the executive directors' remuneration packages.

The executive directors' pensions were modified with effect from 1 January 2008, in line with the changes proposed for the pension scheme as a whole, and the executive pension arrangements were closed to new entrants on that date. This means that Heidi Mottram receives an employer's contribution of 8% of salary to the money purchase section of the Northumbrian Water Pension Scheme. She makes an employee contribution of 5%. The employer's contribution of 8% is the same as is available to any other employee making a 5% contribution.

Annual bonus

The annual bonus plan has been designed to reflect the interests of all of the Company's stakeholders. Consistent with prior years, maximum annual bonus potential for the executive directors for 2010/11 is 70% of salary, which is apportioned as follows:

Annual bonus %



- Shareholders – profit before tax (PBT)
- Customers – Ofwat's Overall Performance Assessment (OPA)
- Employees – percentage lost time through sickness
- Bespoke personal targets

Actual performance against the 2009/10 targets was as follows:

Bonus metric	Maximum bonus (% of salary)	John Cuthbert Actual bonus (% of salary)	Chris Green Actual bonus (% of salary)
PBT	40	19.5	19.5
OPA rating	5	1.0	1.0
Percentage lost time through sickness	5	–	–
Bespoke personal targets	20	18.0	18.0
Total	70	38.5	38.5
		£113,575	£86,625

Notes:

1. The PBT bonus is based on actual PBT performance compared to the budget PBT set by the Board at the beginning of the year. PBT has been chosen because it is a primary financial measure for the Company, for which the executive directors are accountable. The calculation of PBT performance is adjusted to exclude (i) the impact of any variance between the actual and budget interest charge on index linked bonds issued by Northumbrian Water Finance plc, which depends entirely on RPI in July of each year and is, therefore, outside of management control; and (ii) the impact of restructuring costs.
2. NWL's estimated OPA score for 2009/10 is 363, against a range for bonus purposes of 343 to 428, being the published range of performance across the 10 water and sewerage companies in 2008/09. NWL's score was adversely affected by sewer flooding.
3. The year end percentage of time lost through sickness was 3.18%, against a range for bonus purposes of 2.7% to 2.99%.
4. In 2009/10, John Cuthbert's personal targets related principally to managing the PR09 process, maintaining key financial ratios and measures, ensuring that good relationships were maintained with major investors and analysts, implementing the agreed approach to succession planning, ensuring that investment needs were properly quantified and that the investment programme was delivered with regulatory outputs met and identifying further opportunities to impact the cost base of NWL and improve its efficiency ranking. Chris Green's personal targets were focused mainly on managing the PR09 process, maintaining key financial ratios and measures, relationships with major investors and analysts, positioning NWL to respond to Ofwat's proposals on accounting separation and competition, ensuring that investment needs were properly quantified and that the investment programme was delivered with regulatory outputs met, identifying further opportunities to impact the cost base of NWL and improve its efficiency ranking and ensuring an appropriate balance of risk and reward in the management of the Group treasury.

In accordance with the terms agreed on her appointment, Heidi Mottram was awarded a bonus in respect of March 2010 equal to 38.5% of her salary for that month. This was the average percentage of the bonuses awarded to John Cuthbert and Chris Green for the year.

For 2010/11, the same bonus metrics will continue to be used with the same weightings as described above.

LTIP

Under the LTIP, executive directors and senior managers may receive, at the discretion of the Remuneration Committee, annual conditional awards of shares in the Company worth up to 100% of annual salary at grant, although only the executive directors participate at the 100% level. All awards have three year pre-vesting performance conditions.

For the three annual awards granted from December 2006 to December 2008 the vesting of up to half of an award is subject to relative total shareholder return (TSR) performance against the FTSE 250 (excluding investment trusts) and the other half is subject to a relative return on capital employed (ROCE) target as monitored by Ofwat.

In the latter half of 2009, the Committee reviewed its policy on the pre-vesting performance conditions that should apply to LTIP awards. The Committee, with advice from HNBS, came to two conclusions that led to changes being made to its policy on performance conditions, namely:

- the volatility in the share prices of companies in the Financials and Oil & Gas FTSE sectors had increased dramatically and this was no longer correlated with NWG's share price movements. This means that these companies are not the best comparators in a relative TSR performance condition; statistically they are more likely to be grouped at the top or the bottom of the list. Accordingly, for LTIP awards made in 2009/10 and future years, the TSR comparator group will exclude companies from these defined FTSE sectors; and
- the work undertaken on drawing up the business plan for 2010-15 showed that there were other long term performance measures, in addition to ROCE, that should be measured and potentially rewarded. These are performance against Ofwat's serviceability targets and customer satisfaction levels. As such, they have been incorporated as LTIP performance metrics.

Directors' remuneration report

continued

These changes were discussed with the Company's top shareholders and received their support. The Committee thanks them for their constructive engagement in this exercise. This consultation did result in the LTIP award date slipping from early December to 4 January 2010. However, this was still within the six week grant window as permitted by the LTIP rules.

The details of this award to Chris Green are:

	Number of conditional awards granted	Face value of awards granted as a % of salary [†]
Chris Green	83,240	100%

[†] Based on a closing share price on 31 December 2009 of 270.3 pence.

Details of the pre-vesting performance condition for these awards are:

Performance metric	Weighting	Description	Calibration
TSR	50%	Relative TSR against the FTSE 250 excluding investment trusts and companies in the following sectors: Banks, Financial Services, Life Insurance, Non-Life Insurance, Real Estate Investment & Services and Real Estate Investment Trusts, Oil & Gas Producers and Oil Equipment & Services. In addition, awards will only vest if the Committee is satisfied that the Company's TSR performance is consistent with the underlying business performance of the Company.	30% of this part of an award (i.e. 15% of the total award) will vest for median performance increasing on a straight line so that 100% (i.e. 50% of the total award) vests for upper quartile performance.
ROCE	20%	Average absolute ROCE over the three financial years starting from 1 April immediately preceding grant date.	For the 2009/10 awards, 30% of this part of an award (i.e. 6% of the total award) will vest for average three year ROCE of 6.3%, increasing on a straight line so that 50% (i.e. 10% of the total award) will vest for average three year ROCE of 6.45% and on a straight line so that 100% (i.e. 20% of the total award) will vest for an average ROCE of 6.75%.
Serviceability	20%	Owat serviceability targets for the four asset classes (i.e. water non-infrastructure, water infrastructure, sewerage non-infrastructure and sewerage infrastructure) in the final year of the relevant three year performance period. Serviceability is measured by Ofwat based on a number of indicators which include asset performance indicators, water quality compliance, environmental compliance and consumer service.	50% of this part of an award (i.e. 10% of the total award) will vest for 'stable' assessments in three out of the four asset classes. 100% of this part of an award (i.e. 20% of the total award) will vest for 'stable' assessments in all four asset classes. No awards would vest under this part of an award for less than three 'stable' assessments.
Customer	10%	Results of NWL's independently run customer satisfaction index, measured in the final quarter of the relevant three year performance period.	For the 2009/10 awards, 30% of this part of an award (i.e. 3% of the total award) will vest for a customer satisfaction index of 83%, increasing on a straight line so that 100% of this part of an award (i.e. 10% of the total award) vests for a customer satisfaction index of 93% or above.

The advantages of using these targets include:

- the continued use of TSR provides consistency with past awards, alignment with investors and, as a result of the less correlated and volatile sectors now being excluded, provides an improved line of sight for executives;
- the use of an absolute ROCE target ensures that reward is directly linked to the management's delivery of the business plan;
- they recognise that the maintenance of NWL's regulated assets (through the serviceability targets) is critical to the longer term returns for shareholders; and
- customer satisfaction is a key objective for NWL and customers are important stakeholders.

In the event of a change of control, the Committee would determine the extent to which the performance conditions had been met and the proportion of the performance period that had elapsed in deciding whether or not any vesting of awards would take place.

The LTIP award, granted on 21 December 2006, became available to vest on 21 December 2009. The Committee instructed PricewaterhouseCoopers (PwC) to assess the level of vesting of this award. PwC reported that 33.2% of the award was available to vest (being 66.5% of the award relating to the Company's TSR performance against the FTSE 250 Index and 0% of the award relating to the Company's ROCE performance against the other water companies). Prior to vesting, the Committee satisfied itself that the recorded TSR performance was a genuine reflection of the Company's underlying performance. Details of the number of awards which lapsed and those which were exercised by the directors of the Company are shown in Table 3.

Full details of award levels and performance conditions are shown in Table 2.

Responsible investment

The Committee is aware of Guideline 3.2 of the ABI Guidelines on Responsible Investment Disclosure and is satisfied that neither the executive directors' annual bonus targets nor the LTIP performance conditions are likely, inadvertently, to motivate irresponsible behaviour.

Non-executive directors' fees

The Company's remuneration policy is that the Chairman and the non-executive directors should receive a fixed fee for their normal duties. Reflecting the added responsibilities and time commitment, chairing the Remuneration and Audit Committees attracts an additional fee over the non-executive directors' standard base fee.

Fees payable during 2009/10 and the Company's policy from 1 April 2010 (in line with the approach taken in respect of the salaries of NWG executives) are:

	2010/11 £	2009/10 £
Chairman	159,516	157,500
Non-executive director base fee	37,220	36,750
Audit Committee chairing fee	10,634	10,500
Remuneration Committee chairing fee	5,317	5,250

The Chairman and the non-executive directors do not receive benefits in kind and do not participate in bonus, pension or share schemes operated by the Company. Further details of non-executive directors' remuneration are set out in Table 1.

Directors' interests in LTIP awards

The directors' conditional interests in the ordinary 10 pence shares of the Company, awarded in accordance with the terms of the LTIP as at 31 March 2010, are set out in Table 3.

Directors' remuneration report continued

Ordinary 10 pence shares required to fulfil LTIP awards which have vested may be provided by the Northumbrian Water Group plc Employee Trust, through Northumbrian Water Share Scheme Trustees Limited. The Trustees are Sir Patrick Brown, Martin Nègre, John Cuthbert (until 31 March 2010), Anita Frew, Alastair Balls and Kate Alsop. At 31 March 2010, the Trust held a total of 914,518 ordinary 10 pence shares. This represents 0.2% of the Company's total issued share capital, so is materially less than the 5% limit on shares that can be held in trust. In line with the ABI Guidelines, dividends are waived on these shares and the voting rights attached to these shares will not be exercised at the AGM.

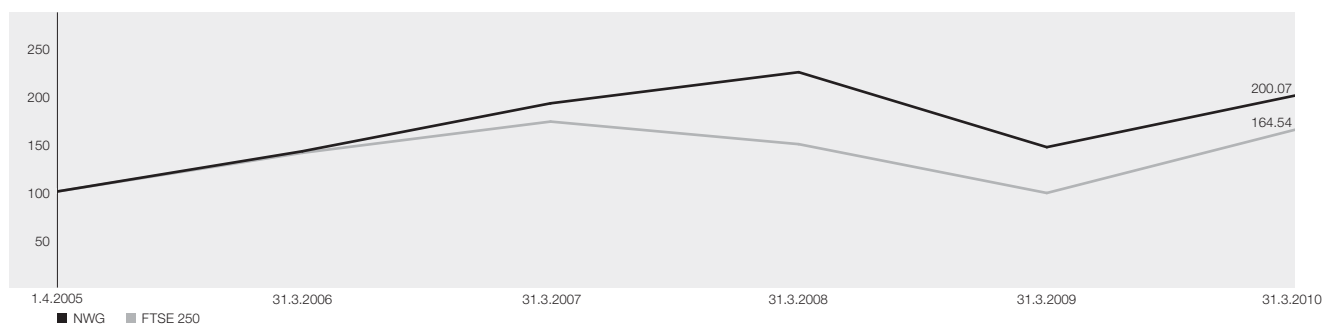
Share dilution

The Company's share plans contain dilution limits that comply with the ABI Guidelines. Shares for both the LTIP and SIP schemes are provided by purchase on the market. There has, therefore, been no dilution to date and there is no commitment to issue new shares in relation to either scheme.

Performance graph

The graph below shows a comparison between the TSR for the Company's shares for the five year period to 31 March 2010, and the TSR for the companies comprising the FTSE 250 Index (excluding investment trusts) over the same period. This index has been selected as the Company is a constituent of the FTSE 250.

Performance graph £



Note:

This graph shows the value, by 31 March 2010, of £100 invested in Northumbrian Water Group plc on 1 April 2005 compared with the value of £100 invested in the FTSE 250 Index (excluding investment trusts) over the same period.

Service contracts

All non-executive directors are appointed for a term of 12 months with a six month notice period for the Company and the director. The executive directors have service contracts with 12 months notice periods and which expire when the directors reach normal retirement age. The contracts do not contain any liquidated damages clauses. Details of the contracts of the executive and non-executive directors who served during the year are shown in Table 4.

Terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours and at the AGM. The terms of appointment set out the expected time commitment for each non-executive director.

Retirement of John Cuthbert and recruitment of Heidi Mottram

John Cuthbert retired on 31 March 2010 and Heidi Mottram was appointed as an executive director on 1 March 2010, giving the Company the benefit of John Cuthbert's expertise and experience in a one month handover process to Heidi Mottram. Heidi Mottram took up her position as Chief Executive Officer on 1 April 2010.

As explained above, Heidi Mottram has been employed on a salary of £320,000. She will not participate in the Company's final salary pension scheme (now closed), and instead, the Company will make an employer's contribution of 8% of salary into the Company's money purchase scheme for her benefit. She will participate in the annual bonus plan and LTIP as described above. No other compensation was paid to her in connection with her recruitment.

External appointments of executive directors

The Board's position on external appointments is described in full in the corporate governance report but, in summary, the Board has agreed that executive directors of the Company who are appointed to non-executive directorships which pay a fee may retain the fees, subject to obtaining the Chairman's consent before an appointment is accepted. Only one such external appointment per director will generally be permitted. On 1 November 2009, John Cuthbert was appointed as a non-executive director of Bellway plc. This appointment was made following John's decision to retire from the Group earlier in the year. John Cuthbert retained the director's fee received from Bellway plc, which is an annual amount of £46,380. Heidi Mottram is a Board member of Yorkshire Forward for which she is paid and retains an annual fee of £8,666.

Directors' interests in shares

The directors' beneficial interests in the ordinary 10 pence shares of the Company, as at 31 March 2010, are set out in Table 6. The NWG Board has agreed to introduce a guideline requesting NWG directors to build up (over a maximum of five years) shares in the Company with a value equal to one year's basic salary (in the case of the executive directors) or one year's fees (in the case of non-executive directors).

Directors' interests in shares under the SIP

The Company SIP is open to UK employees with more than three months' service. Further details of the SIP are set out in the directors' report and business review. During the year, the executive directors had the opportunity to participate in the SIP and their interests in the ordinary 10 pence shares of the Company, purchased and held in accordance with the terms of the SIP, are set out in Table 7.

This directors' remuneration report has been produced in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008. It was approved by the Board and signed on its behalf by the chairman of the Remuneration Committee. It will be put to the shareholders for approval at the Company's AGM.

Alex Scott-Barrett

Chairman of Remuneration Committee
1 June 2010

Directors' remuneration report continued

These tables form the part of the directors' remuneration report which are audited (except for Tables 2 and 4 which do not require auditing).

Table 1

Directors' emoluments (audited)

The emoluments of the directors of the Company for their services as directors of the Company and (where relevant) its subsidiaries, are set out below, rounded to the nearest thousand pounds:

	Fees £000	Basic salary £000	Benefits ¹ £000	Bonus ² £000	Total for the year ended 31.3.2010 £000	Total for the year ended 31.3.2009 £000
Executive directors						
John Cuthbert	–	295	20	114	429	335
Heidi Mottram	–	27	1	10	38	–
Chris Green	–	225	12	86	323	273
Non-executive directors						
Sir Derek Wanless	158	–	–	–	158	158
Sir Patrick Brown ³	47	–	–	–	47	47
Claude Lamoureux	37	–	–	–	37	37
Martin Nègre ⁴	42	–	–	–	42	42
Alex Scott-Barrett	37	–	–	–	37	37
Jenny Williams	37	–	–	–	37	37
Total remuneration	358	547	33	210	1,148	966

Notes:

1. The remuneration of each executive director includes non-cash benefits comprising the provision of car allowances and healthcare.
2. The annual bonus is payable in June 2010, for performance during the year ended 31 March 2010.
3. Includes additional fee paid as chairman of Audit Committee.
4. Includes additional fee paid as chairman of Remuneration Committee.

Table 2
Summary of LTIP performance conditions (unaudited)

LTIP award made 21 December 2006	
Maximum award	75% of salary permitted. Actual grants to executive directors related to shares worth 70% of salary.
Performance conditions	<ol style="list-style-type: none"> (1) 50% of award depends on NWL's return on capital employed relative to that of the other water and sewerage companies of England and Wales. (2) 50% of award depends on the Company's TSR performance against the FTSE 250 Index, excluding investment trusts.
Vesting schedules	<ol style="list-style-type: none"> (1) 30% vests at median performance. At upper quartile or above, all of that half of the award will vest. Between median and upper quartile, straight line pro-rating will apply. Where the return on capital employed performance is below the median, none of this element of the award will vest. (2) 30% vests at median performance with straight line pro-rating of TSR performance against the members of the FTSE 250 Index, excluding investment trusts, to 100% for upper quartile performance. Where the Company's TSR performance is below the median, none of this element of the award will vest.
LTIP award made 13 December 2007 and 15 December 2008	
Maximum award	100% of salary permitted and actual grants to executive directors related to shares worth 100% of salary.
Performance conditions and vesting schedules	As per LTIP award made 21 December 2006.
LTIP award made 4 January 2010	
Maximum award	100% of salary permitted and actual grants to executive directors related to shares worth 100% of salary.
Performance conditions and vesting schedules	Please refer back to the remuneration report for new performance conditions.

Directors' remuneration report continued

Table 3**Directors' interests in LTIP awards (audited)**

As at 31 March 2010, the directors had the following conditional interests in the ordinary 10 pence shares of the Company, awarded in accordance with the terms of the LTIP:

	Award date	Awards held at the start of the year	Awarded during the year	Awards lapsed during the year	Awards vested during the year	Awards held as at 31.3.2010
John Cuthbert	21.12.2006 ¹	66,721	–	44,521	22,200 ²	–
	13.12.2007 ³	79,230	–	–	–	79,230
	15.12.2008 ⁴	103,100	–	–	–	103,100
Totals		249,051	–	44,521	22,200	182,330
Chris Green	21.12.2006 ¹	49,423	–	32,978	16,445 ²	–
	13.12.2007 ³	61,620	–	–	–	61,620
	15.12.2008 ⁴	78,650	–	–	–	78,650
	4.1.2010 ⁵	–	83,240	–	–	83,240
Totals		189,693	83,240	32,978	16,445	223,510

Notes:

- The market value of the shares on the date of the award was 302.75 pence per share. The three year performance period runs from 1 October 2006 to 30 September 2009.
- Shares vested on 21 December 2009 and the closing price on that date was 269.00 pence per share.
- The market value of the shares on the date of the award was 334.00 pence per share. The three year performance period runs from 1 October 2007 to 30 September 2010.
- The market value of the shares on the date of the award was 251.50 pence per share. The three year performance period runs from 1 October 2008 to 30 September 2011.
- The market value of the shares on the date of the award was 272.50 pence per share. The three year performance period runs from 1 October 2009 to 30 September 2012.
- The cost of conditional awards is charged to the income statement over the three year performance period to which they relate after taking account of the probability of performance criteria being met. In the year, £0.4 million was charged to the income statement (2009: £0.5 million).
- Details of the performance conditions are shown at Table 2.
- The market price of the shares on 31 March 2010 was 283.10 pence per share. During the year, the highest market price was 295.70 pence per share and the lowest market price was 203.00 pence per share.
- Aggregate gross gains made by directors on exercise of awards at date of vesting was £103,955 (2009: £92,336).

Table 4**Directors' service contracts (unaudited)**

Details of the contracts of the directors who served during the year are shown below:

	Initial appointment	Current contract start date	Unexpired term ¹	Notice period by either party	Current contract end date
Executive directors²					
John Cuthbert ³	23.5.2003	23.5.2003	Not fixed term	12 months	Normal retirement age (65)
Heidi Mottram	1.3.2010	1.3.2010	Not fixed term	12 months	Normal retirement age (65)
Chris Green	23.5.2003	23.5.2003	Not fixed term	12 months	Normal retirement age (65)
Non-executive directors⁴					
Sir Derek Wanless	1.12.2003	1.12.2008	6 months	6 months	30.11.2010
Sir Patrick Brown	12.5.2003	12.5.2009	11 months	6 months	11.5.2011
Claude Lamoureux	1.12.2006	1.12.2008	6 months	6 months	30.11.2010
Martin Nègre	12.5.2003	12.5.2009	11 months	6 months	11.5.2011
Alex Scott-Barrett	26.9.2006	26.9.2008	4 months	6 months	25.9.2010
Jenny Williams	27.5.2004	27.5.2009	2 months	6 months	29.7.2010

Notes:

- Calculated as at 1 June 2010 and rounded to nearest whole month.
- The service contracts of the executive directors do not contain provisions relating to compensation for termination. In the event of termination by the Company, the Remuneration Committee would make recommendations to the Board on what payments, if any, should be made to the director, depending on the circumstances of the termination, taking into account the Combined Code which discourages payment for failure. The Company would also expect directors to seek to mitigate their loss.
- John Cuthbert took early retirement on 31 March 2010.
- Contracts do not provide for compensation for loss of office in excess of fees accrued.

Table 5**Directors' pensions and pension benefits (audited)**

The accrued defined benefit pensions and corresponding transfer values for the executive directors are set out below:

	Accrued pension at 31.3.2009 £000	Accrued pension at 31.3.2010 £000	Increase in accrued pension £000	Increase in accrued pension net of inflation £000	Transfer value of net increase in accrued pension less directors' contributions £000	Transfer value of accrued pension at 1.4.2009 £000	Transfer value of accrued pension at 31.3.2010 £000	Total change in transfer value less directors' contributions £000
John Cuthbert	163.4	172.0	8.6	1.3	24.1	3,119.0	3,580.9	461.9
Chris Green	99.3	104.3	5.0	0.6	9.3	1,838.4	2,111.4	273.0

Notes:

1. Accrued pensions shown are the amounts that would be paid annually at the normal retirement age based on service to the end of the year.
2. Voluntary contributions paid by the directors and resulting benefits are not shown.
3. The change in transfer value reflects fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as changes in stock market conditions.
4. The transfer values have been calculated in line with the relevant legislation and using actuarial assumptions agreed by the Trustee.
5. The directors participate in a salary sacrifice arrangement and, therefore, paid no contributions to the scheme during the year.

Table 6**Directors' interests in shares (audited)**

The directors had the following beneficial or family interests in the ordinary 10 pence shares of the Company as at 31 March 2010:

	Number of shares held at the start of the year	Number of shares held as at 31.3.2010	Number of shares held as at 1.6.2010
Sir Derek Wanless	30,000	65,000	65,000
John Cuthbert	232,436 ¹	232,436	n/a ²
Chris Green	152,894 ³	169,339⁴	169,339
Sir Patrick Brown	43,000	43,000⁵	43,000
Claude Lamoureux	25,000	25,000	25,000
Martin Nègre	70,000	70,000	70,000
Alex Scott-Barrett	10,000	20,000	20,000
Jenny Williams	6,000	6,000	6,000

Notes:

1. At 1 April 2009, 69,436 of these shares were beneficially owned by Mrs L Cuthbert, 4,000 were beneficially owned by Mr I M Cuthbert and 9,000 were beneficially owned by Miss S L Cuthbert.
2. Mr Cuthbert retired from the Company on 31 March 2010.
3. At 1 April 2009, 137,894 of these shares were beneficially owned by Mrs G Green, and 5,000 were beneficially owned by each of Miss P J Green, Mr M F Green and Mr J M Green.
4. At 31 March 2010, 139,339 of these shares were beneficially owned by Mrs G Green, and 10,000 were beneficially owned by each of Miss P J Green, Mr M F Green and Mr J M Green.
5. On 11 March 2010, Sir Patrick Brown transferred 43,000 shares to Lady Brown.

Directors' remuneration report continued

Table 7**Directors' interests in shares under the SIP (audited)**

The directors who held office as at 31 March 2010 had the following interests in the ordinary 10 pence shares of the Company, purchased and held in accordance with the terms of the SIP:

	Number of SIP shares held at the start of the year ¹	Number of SIP shares held as at 31.3.2010¹	Number of SIP shares held as at 1.6.2010 ¹
John Cuthbert	4,785	5,653	— ²
Chris Green	4,785	5,653	6,372

Notes:

1. These figures include the shares paid for by the participant and the free shares granted by the Company.
2. Mr Cuthbert's shares were released from the SIP on 1 April 2010, following his retirement on 31 March 2010.
3. A summary of the SIP can be found in the directors' report and business review.

Statement of directors' responsibilities in relation to the Group financial statements

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year. Under Company Law, the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the directors' report and business review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Sir Derek Wanless

Chairman

Heidi Mottram

Chief Executive Officer