

Corporate Governance

Introduction

In July 2003, the Board voluntarily resolved to adopt the requirements of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code').

The Board is of the opinion that, throughout the year under review, the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matter:

- The Code includes a requirement that Non-Executive Directors serving longer than nine years on the Board should be subject to annual re-election. One third of Directors are required to offer themselves for re-election each year and the Board is of the opinion that re-election once every three years is sufficient for the purposes of the Company.

Directors and the Board

The Board

The Board comprises eight Directors, two of whom are Executive and six of whom are Non-Executive Directors. The Board meets regularly, normally ten times per year and for ad hoc meetings as and when required. The role of the Board is to set the overall operating strategy, approve detailed operating plans and budgets, monitor performance against plans and oversee the activities of the Executive Directors. The Board has delegated the day to day operation of the activities of the Company to the Executive Directors.

The Board is supplied with regular timely management information through which it can monitor the performance, activities and financial position of the Company and on which decisions can be based.

Meetings and Committee membership

During the year, the Board met ten times. Details of Board meeting attendance, Committee membership and Committee meeting attendance are provided in the table below.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in 2009	10	2	3	2
Tony Cooke	10	2		2
Mary Curtis	10		3	2
Carl Hinault	9	2		2
Kevin Keen³	10 (Chairman)	1 (of 1)	2 (of 2)	2 (Chairman)
Stephen Marie	10		3 (Chairman)	2
Peter Yates²	7 (of 7)	1 (of 1) (Chairman)		1 (of 1)
David Norman¹	3 (of 3)		0 (of 1)	1 (of 1)
Helier Smith	10			
Howard Snowden	10			

¹ David Norman retired from the Board on 22 May 2009.

² Peter Yates was appointed to the Board on 22 May 2009.

³ Kevin Keen ceased to be a member of the Audit Committee with effect from 22 May 2009 and became a member of the Remuneration Committee on 22 May 2009.

Corporate Governance - continued

Director independence

The Board considers all Non-Executive Directors to be independent in character and judgement. However, Carl Hinault has been a Board member for more than nine years and does not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board has determined that Tony Cooke, Mary Curtis, Stephen Marie and Peter Yates shall be deemed independent.

Performance evaluation

In order to ensure that the Board continues to operate effectively, it has developed and implemented a process of performance evaluation. The process measures the performance of the Board as a whole against a set of predefined targets and of individual Directors by way of self and peer appraisal. The results of the performance assessments and appraisals are fed back to the individual Directors and the Board as a whole (as appropriate) and action taken accordingly.

Reappointment

Except where a Director is appointed to fill a casual vacancy, all Directors are appointed by the Shareholders at the Annual General Meeting. One third of the Directors, or where the number of Directors is not a multiple of three, the number nearest to but not exceeding one third, retire by rotation (based upon length of service) and, where eligible, seek re-election. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the Annual General Meeting. Biographical notes of all Directors are included on page 4.

Relations with shareholders

The Company is in regular contact with its majority and controlling shareholder, the States of Jersey. Details of contact with and the views of the States are passed on to the whole Board as necessary.

Audit Committee

The Audit Committee is made up of Peter Yates (Chairman), Tony Cooke and Carl Hinault. The auditors, Ernst & Young LLP, and the Executive Directors, Howard Snowden and Helier Smith also attend the meetings by invitation.

The terms of reference of the Audit Committee, which are available upon request, require it to meet at least twice per annum. Additional meetings may be called where deemed necessary. The Committee is charged by the Board with the following main responsibilities:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. The Committee is briefed on changes to reporting requirements and provided with information on any accounting or reporting issues that arise. The Audit Committee review in detail the financial statements before making a recommendation to the Board as to whether or not they should be formally approved.
- To review the operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary. During the year, the Committee continued its process of risk assessment and evaluation of effectiveness of the systems of internal control.
- To oversee the external audit process and manage the relationship with the external auditors. The Committee formally considers the performance and independence of the external auditors on a regular basis taking into consideration all applicable professional and regulatory requirements. The Committee also has procedures in place to protect auditor independence and control the extent to which the auditors may be retained for non audit services and the basis upon which such services are purchased.
- To make recommendations to the Board as to the re-election and remuneration of the auditors at the Annual General Meetings and do so based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.

The Committee regularly assesses the need for an internal audit function and has determined that the establishment of such a function is, at the present time, not cost effective.

Corporate Governance - continued

Remuneration Committee

The Remuneration Committee is made up of Stephen Marie (Chairman), Mary Curtis and Kevin Keen. The Executive Directors, Howard Snowden and Helier Smith may also attend the meeting by invitation. No Director plays any role in the determination of his own remuneration.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:

- Review the remuneration of salaried staff.
- Review and determine the level of remuneration of Executive Directors.



Nomination Committee

The Nomination Committee comprises Kevin Keen (Chairman), Tony Cooke, Mary Curtis, Carl Hinault, Stephen Marie and Peter Yates. It is primarily responsible for the selection and appointment of the Company's Executive and Non-Executive Directors as and when required.

The other duties of the Committee include:

- Making recommendations to the Board as to the re-election of Directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- Reviewing and making recommendations to the Board as to the succession planning for Executive and Non-Executive Directors.
- Regularly reviewing the structure, size and composition required of the Board compared to its current position and making recommendations to the Board with regard to any changes.
- Keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to operate effectively.

When selecting candidates for potential appointment as a Non-Executive Director, the Committee evaluates the needs of the Company and identifies the necessary skills and experience required by candidates for consideration. The Nomination Committee makes recommendations to the Board taking into account the performance of the candidates at interview, their skills and experience and their ability to meet the specific needs of the Company. Consideration is given to the use of external recruitment consultants and open advertising in the recruitment process. However, this is weighed against the cost of doing so and the specialist needs of the Company as a water supplier.

Corporate Governance - continued

Internal controls

The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage (rather than to eliminate) the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has developed and adopted a corporate and departmental risk register detailing and risk grading all of the significant risks faced by the Company. Alongside the register is a process through which the significant risks faced by the business are identified and evaluated on a regular basis and the controls operating over those risks assessed to ensure that they are adequate.

The process of risk assessment and reviewing the effectiveness of the systems of internal control is regularly reviewed by the Audit Committee, accords with Turnbull guidance and has been in place for the whole of the year, up to and including the date on which the financial statements were approved.

Controls adopted by the Board (or its Committees) to ensure the effectiveness of the systems of internal control include the following:

- The review of the corporate risk register maintained and updated by the Company and of the status of any actions arising from their regular review.
- The receipt of confirmation from Senior Management of the proper operation of controls throughout the period of the review.
- The review and approval during the year of terms of reference of sub committees.
- The review and approval during the year of the schedule of matters specifically reserved for its attention.
- The review of reports received from the Audit Committee concerning the findings of the external auditors on the financial statements of the Company and the systems of internal control.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.