



Contents

- 01. Notice of Annual General Meeting
- 02. Explanatory notes
- 03. Directors' biographies and information
- 05. General notes

Cover pictures

Top left: Terry Brennan from AES takes a waste water sample at Blyth sewage treatment works.

Bottom left: NWL's Gill Ellis clears branches on a 'Just an hour' challenge.

Right: Water releases from NWL's Kielder Water.

Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of Northumbrian Water Group plc (the Company) will be held in the Bishops Suite, Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD on 3 August 2004 at 11.30 am for the following purposes:

Ordinary Business

1. To receive and adopt the annual report and the audited financial statements for the period ended 31 March 2004.
2. To declare a final dividend of 4.63 pence per ordinary 10 pence share.
3. To elect John Cuthbert as a director.
4. To elect Chris Green as a director.
5. To elect Sir Patrick Brown as a director.
6. To elect Martin Nègre as a director.
7. To elect Derek Wanless as a director.
8. To elect Jenny Williams as a director.
9. To elect Alain Chaigneau as a director.
10. To elect Bernard Guirkingner as a director.
11. To elect Sir Fred Holliday as a director.
12. To re-appoint Ernst & Young LLP as Auditors and to authorise the directors to determine their remuneration.
13. To consider and, if thought fit, pass the following as an ordinary resolution:

THAT the remuneration report set out on pages 28 to 32 of the annual report and financial statements for the period ended 31 March 2004, is approved.

Special Business

14. To consider and, if thought fit, pass the following as a special resolution:

THAT the Company is generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 (the Act) to make one or more market purchases (as defined by Section 163 of the Act as amended) out of distributable profits of ordinary shares of 10 pence each of the Company (ordinary shares) to be held by the Company as treasury shares in accordance with Sections 162A to 162C of the Act or dealt with by the Company in accordance with Section 162D of the Act, provided that:

- (i) the Company may not purchase more than 5,186,238 ordinary shares;
- (ii) the Company may not pay less than 10 pence for each ordinary share;
- (iii) the Company may not pay more than 5% over the average of the middle market price of the ordinary shares based on the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Company agrees to purchase the ordinary shares; and
- (iv) this authority shall expire at the conclusion of the next Annual General Meeting or on 31 October 2005 if the next Annual General Meeting has not been held by then.

By Order of the Board

Martin Parker

Company Secretary
30 June 2004

Registered Office:

Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ
Company Number: 4760441

Explanatory notes

Resolution 1 – Report and financial statements

The directors must present to shareholders at the Annual General Meeting (the Meeting) the Annual Report and Financial Statements of the Company for the period ended 31 March 2004 (the period). An information desk will be provided at the Meeting to answer any shareholders' detailed questions relating to the annual report and financial statements.

Resolution 2 – Declaration of final dividend

A final dividend of 4.63p per ordinary share is recommended by the directors for payment to shareholders who are on the Register of Members at the close of business on 16 July 2004. It is proposed that shareholders declare this dividend by passing this resolution. Final dividends must be declared by shareholders, but must not exceed the amount recommended by the directors. If declared, the date of payment of the final dividend will be 13 August 2004.

Resolutions 3-11 – Election of directors

As this is the first Annual General Meeting of the Company and all directors have been appointed since the start of the period, in accordance with the Company's Articles of Association and good corporate governance, all directors are seeking election at the Meeting. The Board recommends that each individual director is elected to the Board because of the experience and expertise that he or she brings, as evidenced by the biographies, and the active contribution that he or she makes and will continue to make to the Board. Information on the directors seeking election at the Meeting can be found on pages 3 and 4 of this booklet and on page 20 and 21 of the annual report and financial statements. Jacques Pétry has retired from the Board following the end of the period and will not be seeking election.

Resolution 12 – Re-appointment and remuneration of the Auditors

It is a requirement that the auditor of a Company is re-appointed at each General Meeting at which accounts are presented. Ernst & Young LLP were appointed as the Company's first Auditors during the period. Ernst & Young LLP have expressed their willingness to continue in office for a further year and this resolution proposes their re-appointment and, in accordance with standard practice, authorises the directors to set the Auditors' remuneration.

Resolution 13 – Remuneration report

The remuneration report for the period has been prepared in accordance with The Directors' Remuneration Report Regulations 2002 (the Regulations) and has been approved by the Board. The remuneration report is set out on pages 28 to 32 of the annual report and financial statements for the period. In accordance with the Regulations, shareholders must also be given the opportunity to approve the remuneration report. The shareholder vote will be advisory only. The directors ask that the shareholders approve this report.

Resolution 14 – Authority for the Company to purchase its own shares

If passed, this authority will allow the Company to purchase up to 5,186,238 of its 10 pence ordinary shares (approximately 1% of the issued share capital). The resolution sets out the lowest and highest prices the Company can pay for the shares. This authority is requested primarily because the purchase of a small percentage of the Company's own shares may help facilitate the operation of a share incentive scheme for the Group's non-UK tax paying employees, which is currently being considered.

Directors' biographies and information

Introduction

As this is the first Annual General Meeting of the Company and all directors have been appointed since the start of the period, in accordance with the Company's Articles of Association and good corporate governance, all directors are seeking election at the Meeting. The Chairman considers that the Board demonstrates a sound balance of skills, offered by directors with very significant experience from a wide range of backgrounds. In running the Board, the Chairman encourages a system of values based on openness, integrity and accountability, as endorsed in the Cadbury Report, and all the directors offering themselves for election adhere to these values.

The executive directors bring financial expertise coupled with many years' experience of the water industry, and have achieved consistently high levels of operational and financial performance during periods of very significant change. The non-executive directors' wide range of experience includes working in the public sector, regulation, finance and in the global water industry. The non-executives are all fully committed to their role in scrutinising the performance of management, the achievement of goals and the integrity of the Company's financial information, controls and risk management systems.

The Chairman has evaluated the performance of all the directors except for the more recent appointees; Jenny Williams and Bernard Guirkingier. The directors who have been evaluated demonstrate commitment to their roles and contribute effectively to the Board.

John Cuthbert – Managing Director (51)

John Cuthbert joined the water industry in 1991 and was appointed Managing Director of North East Water plc in 1993. Following the acquisition of the original Northumbrian Water Group plc by Lyonnaise des Eaux in 1996, he transferred within the Group to become Managing Director of Essex and Suffolk Water plc. John took over as Managing Director of Northumbrian Services Limited, and also of Northumbrian Water Limited, in 2001.

Chris Green – Finance Director (49)

Chris Green joined the original Northumbrian Water Group plc in 1990 and was appointed its Finance Director in 1997. Chris was appointed as Finance Director of Northumbrian Water Limited and oversaw its merger with Essex and Suffolk Water plc in 2000.

Sir Patrick Brown – Senior Independent Non-executive Director (64)

Sir Patrick Brown held various positions in the Department of Transport and the Department of the Environment, becoming Second Permanent Secretary and Chief Executive of the Property Services Agency in 1990. He was Permanent Secretary for the Department of Transport from 1991 to 1997. Sir Patrick became a non-executive director of the Go-Ahead Group plc in 1999 and its Chairman in 2002, a post that he currently holds. He is also Chairman of Amey plc.

Martin Nègre – Independent Non-executive Director (57)

Martin Nègre was, until June 2001, the Chief Executive Officer of Northumbrian Services Limited and the chief corporate representative of its parent company, Suez, in the United Kingdom. He is currently the Chairman of Ecofin Water & Power Opportunities plc, a listed investment trust focused on utilities.

Derek Wanless – Independent Non-executive Director (56)

Derek Wanless rose to become a director of National Westminster Bank in 1991 and its Group Chief Executive in 1992. He retired from this position in 1999. Since 2001, he has been involved in reviewing the trends affecting health services for the UK Government. Derek is currently a non-executive director of Northern Rock plc and of Business in the Community, a Commissioner of the Statistics Commission and a Trustee of the National Endowment for Science, Technology and the Arts. He joined the Company's Board in December 2003.

Directors' biographies and information continued

Jenny Williams – Independent Non-executive Director (55) (appointed post-year end)

In addition to being Head of Water Finance and Flotation at the time of water privatisation, Jenny Williams has held a variety of directorships in a range of Government departments, including the Departments of the Environment, Transport and the Inland Revenue. She was a Director-General and Board member of the Lord Chancellor's Department from 2001 to 2003. She joined the Company's Board in May 2004.

As Jenny has only very recently been appointed to the Board, the Chairman has not yet appraised her contribution. The Chairman welcomes the experience she will bring to the Board, particularly in relation to regulatory matters.

Alain Chaigneau – Non-executive Director (52)

Prior to joining Suez in 1984, Alain Chaigneau worked for the French Treasury Department (Ministry of Economic Affairs). He has held a number of directorships within the Suez group since 1984 and he is currently Senior Executive Vice-President and Chief Financial Officer of Suez Environnement. Alain became a non-executive director of Northumbrian Water Limited in May 2004, a position he also held from April 2000 to May 2003.

Bernard Guirkinger – Non-executive Director (52) (appointed post-year end)

Bernard Guirkinger joined Lyonnaise des Eaux in 1977 and held a number of operational positions, becoming Lyonnaise des Eaux's Director in charge of Germany and North and Central Europe in 1995. He became Chief Executive Officer of Lyonnaise des Eaux France in 1996. In 2002, Bernard became Executive Vice-President of Suez Environnement in charge of the European water division and Chairman of Lyonnaise des Eaux France. He joined the Board of Northumbrian Water Limited in July 2002 and the Company's Board in May 2004.

As Bernard has only very recently been appointed to the Company's Board, the Chairman has not yet appraised his contribution. In relation to Bernard's position on the Board of Northumbrian Water Limited, the Chairman confirms that he provides an active and effective contribution, drawing particularly on his external experience in the international water industry.

Sir Frederick Holliday – Chairman (68)

Sir Fred Holliday had a distinguished academic and scientific career, including a period as Vice-Chancellor of Durham University, before joining the original Northumbrian Water Group plc as a non-executive director in 1991. He became its Chairman in 1993. He was a director of Shell UK from 1980 to 1998 and Chairman of the Go-Ahead Group plc until October 2002. Sir Fred is currently the Chairman of Brewin Dolphin Holdings plc and is Vice-President of the Freshwater Biological Association.

Sir Patrick Brown, following a meeting with the non-executive directors at which Sir Fred's performance was considered, confirms that Sir Fred brings to the Board an excellent scientific background and a profound knowledge of the water industry. As Chairman he manages the Board well, makes a valuable personal contribution to its proceedings and represents the Company effectively through his contacts in government, industry and the academic world.

General notes

Entitlement to attend and vote

To be entitled to attend and vote at the Meeting (and for the purpose of determining the number of votes cast) shareholders must be entered on the Company's Register of Members not less than 48 hours before the time set for the Meeting. This time limit will also apply for the purpose of determining who is entitled to attend and vote at the Meeting (and for the purpose of determining the number of votes cast) if the Meeting is adjourned from its scheduled time by 48 hours or less. If the Meeting is adjourned for a longer period, shareholders who wish to attend and vote at the adjourned Meeting must be entered on the Company's Register of Members not less than 48 hours before the time set for the adjourned Meeting. Persons who are not shareholders of Northumbrian Water Group plc will not be admitted to the Meeting unless prior arrangements are made with the Company. If you wish to attend the Meeting you should bring with you the attendance form, which is attached to the form of proxy.

A shareholder entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company. A form of proxy for the Meeting is enclosed with this Notice. To be valid, a form of proxy together with, if applicable, the Power of Attorney or other authority under which it is signed, or a certified copy thereof, must be lodged with or posted to Proxy Department, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU to be received not later than 11.30 am on 1 August 2004. If you appoint a proxy other than the Chairman of the Meeting, please ensure that your proxy brings to the Meeting some form of identification. Completion and return of a form of proxy will not prevent a shareholder attending and voting at the Meeting in person should he or she wish to do so.

Documents on display

The following documents are available for inspection at the registered office of the Company during normal business hours on any weekday from the date of this Notice until and including the date of the Annual General Meeting and will be available at the Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD from 10.30 am on the day of the Annual General Meeting and during the Meeting:

- copies of the executive directors' service contracts
- copies of the terms and conditions of appointment of the non-executive directors
- register of the interests of the directors and connected persons.

Electronic proxy voting (institutional investors)

During the year the Company invited comments from a selection of its larger institutional investors on the question of using electronic proxy voting. Replies indicating that shareholders were ready and able to use electronic voting were very few. The Company has therefore decided not to use electronic voting for this Annual General Meeting. The Company is keen to hear from any institutional investors who would like to register an interest in using electronic voting at future general meetings. Shareholders are invited to write to the Company Secretary, Northumbrian Water Group plc, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ or to contact the Company by telephone on 0191 301 6704.

Employee share plans

An employee whose shares are held by the trustees under the Northumbrian Water Group Share Incentive Plan is not entitled to attend the Meeting in respect of those shares. However, the employee can, in the meantime, instruct the trustees of the plan how to vote on his or her behalf on any resolution set out in the Notice of Annual General Meeting, should the resolution be put to a formal vote by poll. Voting direction forms will be sent to those employees concerned. Voting directions should be returned to the address on the reverse of that form to be received no later than 18 July 2004.

Further information and special requirements

If you have any questions about the Annual General Meeting, or require any special access or facilities, please call one of our advisors on 0191 301 6701.

Venue location and directions

The Annual General Meeting is being held in the Bishops Suite at the Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD, which is just two miles from Durham City and 400 yards from junction 62 on the A1(M). It is approximately two miles from Durham Station, 24 miles from Newcastle International Airport and 26 miles from Teesside International Airport. A location map is shown on the back of the attendance card included with this booklet.

Directions are as follows:

From the north or south, take the A1/A1(M) to junction 62 (A690, A691, Sunderland, Durham and Consett). Leave the A1(M) and take the exit from the roundabout for the A690 towards Sunderland. After about 400 yards, pass under a railway bridge and take the filter lane to turn right, almost immediately, into the entrance to the hotel grounds.



Northumbrian Water Group plc
Northumbria House, Abbey Road,
Pity Me, Durham DH1 5FJ
Telephone: 0870 608 4820
Facsimile: 0191 301 6202

www.nwg.co.uk