

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PART 2 OF THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006. This document contains a proposal which if implemented will result in the cancellation of the listing of Northumbrian Shares on the Official List of the UK Listing Authority and of trading in Northumbrian Shares on the London Stock Exchange's market for listed securities. If you are in any doubt about the Acquisition or the contents of this document or what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in the relevant jurisdiction.

If you have sold or otherwise transferred all of your Northumbrian Shares, you should send this document, together with the accompanying documents and reply paid envelope, but not the personalised Forms of Proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, such documents should not be forwarded, distributed or transmitted (in whole or in part) in or into any jurisdiction in which such act would constitute a violation of the relevant laws in such jurisdiction. If you have sold or otherwise transferred only part of your holding of Northumbrian Shares, you should retain these documents.

Recommended cash acquisition of
Northumbrian Water Group plc
by
UK Water (2011) Limited

(a company indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited)

**to be effected by means of a
scheme of arrangement under Part 26 of
the Companies Act 2006**

Shareholders should read carefully the whole of this document and the accompanying Forms of Proxy. Your attention is drawn to the letter from the Chairman of Northumbrian in Part 1 of this document, which contains the recommendation of the Northumbrian Directors that you vote in favour of the Scheme at the Court Meeting and in favour of the Resolution at the General Meeting. A letter from Deutsche Bank explaining the Scheme in greater detail is set out in Part 2 of this document.

This document will be available on Northumbrian's website at www.nwg.co.uk as soon as possible and in any event by no later than 12 noon on 30 August 2011.

You may request a hard copy of this document (and any information incorporated into it by reference from another source) by contacting Northumbrian's Registrars, Capita Registrars Limited, at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or on 0871 664 0321 (or if calling from outside the UK +44 20 8639 3399) with an address to which the hard copy may be sent. Calls to 0871 664 0321 cost 10 pence per minute including VAT. Calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice. You may also request that all future documents, announcements and information to be sent to you in relation to the Acquisition should be in hard copy form.

A hard copy of this document (and any information incorporated into it by reference from another source) will not be sent to you unless you have previously notified Northumbrian's Registrars, Capita Registrars Limited, that you wished to receive all documents in hard copy form or unless requested in accordance with the procedure set out above.

Capitalised words and phrases used in this document shall have the meanings given to them in Part 6 of this document and terms in quotation marks are defined in the City Code, which can be found on the Panel's website, www.thetakeoverpanel.org.uk.

Notices convening the Court Meeting and the General Meeting, both of which are to be held at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London EC1A 2FG on 19 September 2011, are set out in Part 8 and Part 9 of this document. The Court Meeting will start at 11.00 a.m. and the General Meeting will start at 11.15 a.m. (or as soon thereafter as the Court Meeting has been concluded or adjourned).

The action to be taken by Northumbrian Shareholders in respect of the Court Meeting and the General Meeting is set out on pages 8 and 9. Whether or not you intend to be present at the Court Meeting and/or the General Meeting, please complete and sign both Forms of Proxy accompanying this document, BLUE for the Court Meeting and WHITE for the General Meeting, in accordance with the instructions printed on them and return them to Northumbrian's Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible, and in any event so as to be received not later than 48 hours before the relevant meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK). Alternatively, Forms of Proxy for the Court Meeting (but not the General Meeting) may be handed to the Chairman of the Court Meeting at the commencement of that meeting. The return of a completed Form of Proxy will not prevent you from attending the Court Meeting and/or the General Meeting and voting in person if you so wish and if you are entitled to do so.

If you hold your Northumbrian Shares in uncertificated form through CREST, you may vote using the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual (please also refer to the relevant guidance in the Notice of the Court Meeting and the accompanying notes to the Notice of the General Meeting set out at the end of this document). Proxies submitted via CREST (under CREST participant ID RA10) must be received by Northumbrian's Registrars, Capita Registrars Limited not later than 11.00 a.m. on 15 September 2011 in the case of the Court Meeting and by 11.15 a.m. on 15 September 2011 in the case of the General Meeting or, in the case of any adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK).

If you prefer to register the appointment of your proxy electronically via the internet you can do so by completing and submitting your Form of Proxy online through the website of Northumbrian's Registrars, Capita Registrars Limited, at www.capitashareportal.com. To vote online you will need to log in to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the Form of Proxy. A proxy appointment made electronically will not be valid if sent to any address other than that provided or, if received after 11.00 a.m. on 15 September 2011 in the case of the Court Meeting or 11.15 a.m. on 15 September 2011 in the case of the General Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

If you have any questions about this document, the Court Meeting, the General Meeting or the Acquisition or are in any doubt as to how to complete the Forms of Proxy, please call the Northumbrian Shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 664 0321 (from within the UK) or +44 20 8639 3399 (from outside the UK). Calls to the 0871 664 0321 number will be charged at 10 pence per minute plus network extras. Calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice.

Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the FSA. Details about the extent of Deutsche Bank AG’s authorisation and regulation by the FSA are available on request. Deutsche Bank AG, London Branch is acting as financial adviser to Northumbrian and no one else in connection with the matters set out in this document and will not be responsible to anyone other than Northumbrian for providing the protections afforded to clients of Deutsche Bank AG, London Branch, or for providing advice in relation to any matter referred to herein.

RBC and HSBC, which are each authorised and regulated in the United Kingdom by the Financial Services Authority, are acting for UK Water and no one else in connection with the Acquisition and this document and will not be responsible to anyone other than UK Water for providing the protections afforded to their respective clients or for providing advice in connection with the Acquisition or any matter referred to herein.

IMPORTANT NOTICE

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell or issue, nor the solicitation of an offer to buy or subscribe for, shares in any jurisdiction in which such offer or solicitation is unlawful.

The statements contained in this document are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set out in this document since such date. Nothing contained in this document shall be deemed to be a forecast, projection or estimate of the future financial performance of Northumbrian or UK Water except where otherwise expressly stated.

Notice to US holders of Northumbrian Shares

US Holders should note that the Acquisition relates to the shares of a UK company, is subject to UK disclosure requirements (which are different from those of the United States) and is proposed to be made by means of a scheme of arrangement provided for under English law. As the Acquisition is to be effected by means of a scheme of arrangement it is not subject to the tender offer rules under the US Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the United States tender offer rules. Financial information included in this document has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in the UK and thus may not be comparable to the financial information of United States companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If UK Water exercises its right to implement the Acquisition by way of a Takeover Offer, the Takeover Offer will be made in compliance with applicable United States laws and regulations.

The receipt of cash pursuant to the Acquisition by a US Holder as consideration for the cancellation of its Northumbrian Shares pursuant to the Scheme may be a taxable transaction for United States federal income tax purposes and under applicable United States state and local, as well as foreign and other, tax laws. Each Northumbrian Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of the Acquisition applicable to him.

It may be difficult for US Holders to enforce their rights and any claim arising out of the US federal securities laws, since Northumbrian is located in a non-US jurisdiction, and some or all of its officers and directors may be residents of a non-US jurisdiction. US Holders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court’s judgement.

In accordance with normal UK practice and pursuant to Rule 14e-5(b) of the US Exchange Act, UK Water or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or

arrangements to purchase, Northumbrian Shares outside of the United States, other than pursuant to the Acquisition, until the date on which the Acquisition and/or Scheme becomes Effective, lapses or is otherwise withdrawn. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to the Regulatory News Service of the London Stock Exchange and will be available on the London Stock Exchange website at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Cautionary note regarding forward-looking statements

This document (including information incorporated by reference in this document), oral statements made regarding the Acquisition, and other information published by UK Water and Northumbrian contain statements that are or may be deemed to be “forward-looking statements”, including for the purposes of the US Private Securities Litigation Reform Act of 1995. These statements are prospective in nature and are not based on historical facts, but rather on the current expectations of the management of UK Water and Northumbrian about future events and are naturally subject to uncertainty and changes in circumstances which could cause actual events to differ materially from the future events expected or implied by the forward-looking statements. The forward-looking statements contained herein include statements about the expected effects of the Acquisition on Northumbrian, UK Water, the expected timing and scope of the Acquisition, synergies, other strategic options and all other statements in this document other than historical facts. Forward-looking statements may (but will not always) include, without limitation, statements typically containing words such as “targets”, “plans”, “aims”, “intends”, “expects”, “anticipates”, “believes”, “estimates”, “will”, “may”, “budget”, “forecasts” and “should” and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. These forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of UK Water or Northumbrian. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the Conditions to the Acquisition, as well as additional factors, such as changes in economic conditions, changes in the level of capital investment, success of business and operating initiatives and restructuring objectives, customers’ strategies and stability, changes in the regulatory environment, fluctuations in interest and exchange rates, the outcome of litigation, government actions and natural phenomena such as floods, earthquakes and hurricanes. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements and neither UK Water nor Northumbrian, nor any of their respective advisors, associates, directors or officers undertakes any obligation to update publicly, express by disclaimer or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required or provides any representation, assurance or guarantee that the occurrence of events expressed or implied in any forward-looking statement in this document will actually occur.

Dealing disclosure requirements

Under Rule 8.3(a) of the City Code, any person who is “interested” in 1 per cent. or more of any class of “relevant securities” of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an “Opening Position Disclosure” following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified. An “Opening Position Disclosure” must contain details of the person’s “interests” and short positions in, and rights to subscribe for, any “relevant securities” of each of (i) the offeree company and (ii) any paper offeror(s). An “Opening Position Disclosure” by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (UK time) on the 10th Business Day following the commencement of the offer period and, if appropriate, by no later than 3.30 p.m. (UK time) on the 10th Business Day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the “relevant securities” of the offeree company or of a paper offeror prior to the deadline for making an “Opening Position Disclosure” must instead make a “Dealing Disclosure”.

Under Rule 8.3(b) of the City Code, any person who is, or becomes, “interested” in 1 per cent. or more of any class of “relevant securities” of the offeree company or of any paper offeror must make a “Dealing Disclosure” if the person deals in any “relevant securities” of the offeree company or of any paper offeror. A “Dealing Disclosure” must contain details of the “dealing” concerned and of the person’s “interests” and short positions in, and rights to subscribe for, any “relevant securities” of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A “Dealing Disclosure” by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the Business Day following the date of the relevant “dealing”.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in “relevant securities” of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

“Opening Position Disclosures” must also be made by the offeree company and by any offeror and “Dealing Disclosures” must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose “relevant securities” “Opening Position Disclosures” and “Dealing Disclosures” must be made can be found in the Disclosure Table on the Panel’s website at www.thetakeoverpanel.org.uk, including details of the number of “relevant securities” in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an “Opening Position Disclosure” or a “Dealing Disclosure”, you should contact the Panel’s Market Surveillance Unit on +44 (0)20 7638 0129.

If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8 of the City Code, you should contact an independent financial adviser authorised by the FSA under FSMA or consult the Panel’s website at www.thetakeoverpanel.org.uk or contact the Panel on telephone number +44 (0)20 7638 0129.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<i>Event</i>	<i>Time/date⁽¹⁾</i>
Latest time for lodging BLUE Forms of Proxy for the Court Meeting	11.00 a.m. on 15 September 2011 ⁽²⁾
Latest time for lodging WHITE Forms of Proxy for the General Meeting	11.15 a.m. on 15 September 2011 ⁽³⁾
Voting Record Time for the Court Meeting and General Meeting	6.00 p.m. on 15 September 2011 ⁽⁴⁾
Court Meeting	11.00 a.m. on 19 September 2011
General Meeting	11.15 a.m. on 19 September 2011 ⁽⁵⁾
Scheme Court Hearing to sanction the Scheme	11 October 2011
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Northumbrian Shares	12 October 2011
Scheme Record Time	6.00 p.m. on 12 October 2011
Reduction Court Hearing to confirm the Reduction of Capital	13 October 2011
Effective Date of the Scheme	14 October 2011
De-listing of Northumbrian Shares	8.00 a.m. on 14 October 2011
Posting of cheques and crediting of CREST with cash consideration	by 28 October 2011

The Court Meeting and the General Meeting will both be held at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London EC1A 2FG on 19 September 2011. The Court Meeting will start at 11.00 a.m. and the General Meeting will start at 11.15 a.m. (or as soon thereafter as the Court Meeting has been concluded or adjourned).

- (1) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the Reduction of Capital and the date on which the Conditions are satisfied or, if capable of waiver, waived. If there are any revisions to this timetable, Northumbrian will make an appropriate announcement as soon as practicable.
- (2) It is requested that BLUE Forms of Proxy for the Court Meeting be lodged at least 48 hours prior to the time appointed for the Court Meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK). However, BLUE Forms of Proxy for the Court Meeting not returned by this time may be handed to the Chairman of the Court Meeting at the commencement of that meeting.
- (3) White Forms of Proxy for the General Meeting must be lodged at least 48 hours prior to the time appointed for the General Meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK). White Forms of Proxy may not be handed to the Chairman of the General Meeting at that meeting.
- (4) If either of the Northumbrian Shareholder Meetings is adjourned, then the Voting Record Time for the relevant reconvened meeting will be 6.00 p.m. on the date two days prior to the date set for the adjourned meeting.
- (5) Or as soon thereafter as the Court Meeting has been concluded or adjourned.

All times referred to are UK times, unless otherwise stated.

ACTION TO BE TAKEN

The Court Meeting and the General Meeting will be held at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London, EC1A 2FG on 19 September 2011 at 11.00 a.m. and 11.15 a.m., respectively (or, in the case of the General Meeting, as soon thereafter as the Court Meeting has been concluded or adjourned). The Scheme requires approval at both of these meetings.

Please check you have received the following with this document:

1. a BLUE Form of Proxy for use in respect of the Court Meeting on 19 September 2011;
2. a WHITE Form of Proxy for use in respect of the General Meeting on 19 September 2011; and
3. a reply-paid envelope for use in the United Kingdom.

To vote on the Scheme whether or not you plan to attend the Northumbrian Shareholder Meetings, please complete and sign both the enclosed BLUE and WHITE Forms of Proxy and return them in accordance with the instructions provided thereon as soon as possible but in any event so as to be received by:

- (a) no later than 11.00 a.m. on 15 September 2011 in the case of the Court Meeting (BLUE form); and
- (b) by no later than 11.15 a.m. on 15 September 2011 in the case of the General Meeting (WHITE form),

(or, in the case of any adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK)). This will enable your votes to be counted at the Northumbrian Shareholder Meetings in the event of your absence. If the BLUE Form of Proxy for use at the Court Meeting is not lodged by 11.00 a.m. on 15 September 2011, it may be handed to the Chairman of the Court Meeting at the commencement of that meeting. However, in the case of the General Meeting, unless the WHITE Form of Proxy is lodged so as to be received by the time mentioned above, it will be invalid. A reply paid envelope for use in the United Kingdom is enclosed for your convenience in returning the two Forms of Proxy.

If you hold your Scheme Shares in uncertificated form (i.e. in CREST), you may vote using the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual (please also refer to the relevant guidance in the Notice of the Court Meeting and the accompanying notes to the Notice of the General Meeting set out at the end of this document). Proxies submitted via CREST (under CREST participant ID RA10) must be received by Northumbrian's Registrars, Capita Registrars Limited not later than 11.00 a.m. on 15 September 2011 in the case of the Court Meeting and by 11.15 a.m. on 15 September 2011 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK)).

Northumbrian Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so by completing and submitting their Form of Proxy online through the website of Northumbrian's Registrars, Capita Registrars Limited, at www.capitashareportal.com. To vote online you will need to log in to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the Form of Proxy. A proxy appointment made electronically will not be valid if sent to any address other than that provided or, if received after 11.00 a.m. on 15 September 2011 in the case of the Court Meeting or 11.15 a.m. on 15 September 2011 in the case of the General Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

The completion and return of a Form of Proxy will not prevent you from attending and voting at the Court Meeting or the General Meeting, or any adjournment thereof, in person if you should wish and if you are entitled to do so.

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of Scheme Shareholders. You

are therefore strongly urged to complete, sign and return your Forms of Proxy, for both the Court Meeting and the General Meeting or use the electronic proxy appointment system, or complete your CREST proxy voting instructions, if applicable, as soon as possible.

Northumbrian Shareholder Helpline

If you have any queries, please call the Northumbrian Shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 664 0321 (from within the UK) or +44 20 8639 3399 (from outside the UK). Calls to the 0871 664 0321 number will be charged at 10 pence per minute plus network extras. Calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice.

PART 1

LETTER FROM THE CHAIRMAN



Directors:

Sir Derek Wanless (*Chairman*)
Heidi Mottram OBE (*Chief Executive Officer*)
Christopher Michael Green (*Finance Director*)
Sir Austen Patrick Brown (*Non-executive Director*)*
Margaret Fay CBE (*Non-executive Director*)*
Dr Simon Lyster (*Non-executive Director*)*
Martin Andre Bernard Nègre (*Non-executive Director*)*
Paul Francis Rew (*Non-executive Director*)*
Alexander John Scott-Barrett (*Non-executive Director*)*

**Independent Directors*

Registered office:
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ

26 August 2011

To all Northumbrian Shareholders and, for information only, to Persons With Information Rights and to participants in the Northumbrian Share Plans

Dear Shareholder

RECOMMENDED CASH ACQUISITION OF NORTHUMBRIAN WATER GROUP PLC BY UK WATER (2011) LIMITED

1. INTRODUCTION

On 2 August 2011, the Northumbrian Board and the Board of UK Water announced that they had agreed the terms of a recommended acquisition of Northumbrian by UK Water.

I am writing to you on behalf of the Northumbrian Board to explain the background to, and reasons for, the Acquisition and to describe the action you should now take. For the reasons set out below, the Northumbrian Board supports the Acquisition and recommends that you vote in favour of the resolutions required to effect the Scheme at the Court Meeting and at the General Meeting as the Northumbrian Directors have undertaken to do in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members totalling 354,976 Northumbrian Shares, representing in aggregate approximately 0.07 per cent. of Northumbrian's existing issued share capital.

Further information in relation to the Court Meeting and the General Meeting is contained in paragraph 9 of this Part 1 and in paragraph 10 of Part 2 of this document.

2. SUMMARY OF THE TERMS OF THE ACQUISITION

The Acquisition is to be effected by way of a scheme of arrangement under Part 26 of the Companies Act, which requires the approval of Northumbrian Shareholders and the sanction of the Court.

Under the Acquisition, which is subject to the Conditions and further terms set out in Part 3 of this document, Scheme Shareholders will be entitled to receive:

For every Northumbrian ordinary share 465 pence in cash

Northumbrian Shareholders who were on the register at close of business on 12 August 2011 will also remain entitled to receive the net final dividend of 9.57 pence per Northumbrian Share in respect of the year ended 31 March 2011, to be paid on 9 September 2011.

The Acquisition values the entire issued share capital of Northumbrian at approximately £2,412 million. 465 pence per Northumbrian Share represents a premium of:

- approximately 26.4 per cent. to the Closing Price per Northumbrian Share of 367.9 pence at the close of business on 23 June 2011 (being the last Business Day prior to the press speculation concerning potential interest in Northumbrian);
- approximately 21.4 per cent. to the Closing Price per Northumbrian Share of 383.0 pence at the close of business on 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian); and
- approximately 38.4 per cent. to the average Closing Price per Northumbrian Share of approximately 335.9 pence for the six months ended 24 June 2011.

3. BACKGROUND TO AND REASONS FOR RECOMMENDING THE ACQUISITION

Since its IPO in May 2003, Northumbrian has delivered consistent returns to its shareholders through its focus on delivering high quality, sustainable water and sewerage services to its customers.

During this period, Northumbrian has invested over £1.6 billion in developing and maintaining its assets across its core regions in the north east of England, Essex and Suffolk. Northumbrian Water Limited's regulatory capital base has grown from £2.2 billion at 30 September 2003 to £3.3 billion at 31 March 2011. Total shareholder returns have been greater than 550 per cent. over the period since IPO.

The Northumbrian Directors consider that Northumbrian is well-placed to continue its successful strategy, generating significant shareholder value and would have a strong future as an independent business. However, the Northumbrian Directors also believe that the Consortium's offer is at a level which fairly values the current and future prospects of the Company. At 465 pence per Northumbrian Share, the Consortium's offer represents a premium of approximately 26.4 per cent. to the Closing Price of 367.9 pence per Northumbrian Share on 23 June 2011 (being the last Business Day prior to press speculation concerning potential interest in Northumbrian) and a premium of approximately 38.4 per cent. to the average Closing Price of 335.9 pence per Northumbrian Share over the six months ended 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian).

The Northumbrian Directors have also taken consideration of the Consortium's strong track record of investment in regulated and non-regulated utility and infrastructure assets in the UK. Given the critical importance of Northumbrian's business to the communities that it serves, the Northumbrian Directors welcome the statements that the Consortium has made with respect to Northumbrian's management and employees and its location of business.

4. UNDERTAKINGS TO VOTE IN FAVOUR OF THE SCHEME

UK Water has received an irrevocable undertaking from Ontario Teachers' Pension Plan Board, which has a beneficial holding of Northumbrian Shares representing approximately 26.8 per cent. of Northumbrian's existing issued share capital: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept such Takeover Offer made by UK Water.

Ontario Teachers' Pension Plan Board has also undertaken to UK Water not to bid, or participate in any bid, for Northumbrian.

Each of the Northumbrian Directors who holds Northumbrian Shares has provided to UK Water irrevocable undertakings: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of his or her entire beneficial holdings of Northumbrian Shares and those of his or her family members totalling 354,976 Northumbrian Shares, representing in aggregate approximately 0.07 per cent. of Northumbrian's existing issued share capital.

In addition, UK Water has received non-binding letters of intent from JP Morgan Asset Management and Artemis Investment Management LLP confirming their intention: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of 19,891,674 and 15,082,281 Northumbrian Shares respectively, representing approximately 3.8 and 2.9 per cent. respectively of Northumbrian's existing issued share capital. Artemis Investment Management LLP has subsequently sold 12,186,048 of its Northumbrian Shares, meaning its non-binding letter of intent now applies to 2,896,233 Northumbrian Shares, representing approximately 0.6 per cent. of Northumbrian's existing issued share capital.

Further details of these irrevocable undertakings and letters of intent are set out in paragraph 6 of Part 5 of this document.

5. MANAGEMENT, EMPLOYEES AND LOCATIONS

UK Water has assured me and the Northumbrian Board that it attaches great importance to the skills and experience of the existing management and employees of the Northumbrian Group and believes they will be an important factor in the continuing success of the Northumbrian Group. Accordingly, UK Water has given assurances that the existing employment rights, including pension entitlements, of the management and employees of the Northumbrian Group will be fully safeguarded.

UK Water has also confirmed that it has no intention to change the major locations of the Northumbrian Group's places of business or to re-deploy the Northumbrian Group's fixed assets and no proposals exist to change materially the conditions of employment of any of the Northumbrian Group's employees.

6. CAMBRIDGE WATER

Immediately prior to the Announcement, CKI completed the sale of Cambridge Water to HSBC.

7. TRADING UPDATE

As announced in Northumbrian's Interim Management Statement on 28 July 2011, trading for the period 1 April 2011 to 27 July 2011 has been in line with expectations.

Water and sewerage charges at the Northumbrian Group's principal subsidiary, Northumbrian Water Limited, have increased by 8.5 per cent. for 2011/12 (in line with the application of the K Factor of 3.8 per cent. and 4.7 per cent. in respect of the November 2010 Retail Price Index).

Operating costs for the 12 months to 31 March 2012 are expected to increase by around 3 per cent., reflecting inflationary pressures and new commitments resulting from the adoption of private drains and sewers and the Carbon Reduction Commitment, partially offset by efficiencies. Delivery of Northumbrian's efficiency programme is on schedule and, as a result, the business is ahead of the final determination profile in spite of these new commitments.

Capital investment in the regulated business is expected to progress in line with the final determination for the year. Northumbrian's major projects for the expansion of Abberton reservoir and construction of an advanced anaerobic digestion plant at Howdon are progressing well and remain on schedule.

8. NORTHUMBRIAN SHARE PLANS

Information relating to the effect of the Scheme on participants in the Northumbrian Share Plans is set out in paragraph 13 of Part 2 of this document. Participants in each of the Northumbrian Share Plans are being sent further details of the actions they can take in respect of any outstanding awards and the consequences the Scheme has on any outstanding awards.

9. THE SCHEME AND THE NORTHUMBRIAN SHAREHOLDER MEETINGS

It is intended that the Acquisition will be effected by means of a scheme of arrangement between Northumbrian and its shareholders under Part 26 of the Companies Act (although UK Water reserves the

right to effect the Acquisition by way of a Takeover Offer). The procedure involves an application by Northumbrian to the Court to sanction the Scheme and confirm the cancellation of the Scheme Shares in consideration for which Scheme Shareholders will receive 465 pence in cash for each Scheme Share.

To become Effective, the Scheme requires, among other things, the approval of a majority in number of the Scheme Shareholders present and voting (either in person or by proxy) at the Court Meeting representing not less than 75 per cent. in value of the relevant Scheme Shares voted, and the passing of a special resolution necessary to implement the Scheme at the General Meeting. The Scheme must also be sanctioned by the Court and the associated Reduction of Capital must be confirmed by the Court, in each case at the relevant Court Hearing.

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of Scheme Shareholders. You are therefore strongly urged to complete, sign and return your Forms of Proxy, for both the Court Meeting and the General Meeting or use the electronic proxy appointment system, or complete your CREST proxy voting instructions, if applicable, as soon as possible.

Further details of the Scheme and the Northumbrian Shareholder Meetings are set out in paragraph 10 of Part 2 of this document.

10. SUSPENSION, DELISTING AND RE-REGISTRATION

The attention of Northumbrian Shareholders is drawn to paragraph 17 of Part 2 of this document in relation to UK Water's intentions regarding the cancellation of the listing of and trading in Northumbrian Shares.

11. THE EFFECT OF THE SCHEME ON THE NORTHUMBRIAN DIRECTORS' INTERESTS

As set out in paragraph 1 and 4 of this Part 2, the Northumbrian Directors have irrevocably undertaken to vote in favour of the Scheme at the Northumbrian Shareholder Meetings in respect of their own beneficial holdings of Northumbrian Shares. Details of the effects of the Scheme on their interests are set out in paragraph 12 of Part 2 of this document.

12. BREAK FEE LETTER

Northumbrian and UK Water have entered into the Break Fee Letter, under which Northumbrian has agreed to make a payment of £24.1 million to UK Water under certain circumstances. An overview of the material provisions of the Break Fee Letter is set out in paragraph 7(b) of Part 5 of this document.

13. OVERSEAS SHAREHOLDERS

Persons resident in, or citizens of, jurisdictions outside the United Kingdom should refer to paragraph 15 of Part 2 of this document.

14. UK TAXATION

Your attention is drawn to paragraph 16 of Part 2 of this document. If you are in any doubt about your tax position, you should consult an appropriately qualified independent professional adviser immediately.

15. ACTION TO BE TAKEN

Notices convening the Court Meeting and the General Meeting are set out at the end of this document. You will find enclosed with this document a BLUE Form of Proxy for use at the Court Meeting and a WHITE Form of Proxy for use at the General Meeting.

Whether or not you intend to be present at either meeting, you are requested to complete and return both the enclosed Forms of Proxy for the Court Meeting (BLUE) and for the General Meeting (WHITE) in accordance with the instructions printed on the forms.

16. FURTHER INFORMATION

Your attention is drawn to the letter from Deutsche Bank set out in Part 2 of this document, which gives further details about the Acquisition, and to the terms of the Scheme that are set out in full at Part 7 of this document.

17. RECOMMENDATION

The Northumbrian Directors, who have been so advised by Deutsche Bank, consider the terms of the Acquisition to be fair and reasonable. In providing its financial advice, Deutsche Bank has taken into account the commercial assessments of the Northumbrian Directors.

In addition, the Northumbrian Directors believe that the terms of the Acquisition are in the best interests of Northumbrian Shareholders as a whole and recommend unanimously that Northumbrian Shareholders vote in favour of the resolutions to be proposed at the Northumbrian Shareholder Meetings, as they have irrevocably undertaken to do in respect of their entire beneficial holdings of Northumbrian Shares and those of their family members totalling 354,976 Northumbrian Shares, representing in aggregate approximately 0.07 per cent. of Northumbrian's existing issued share capital.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'Derek Wanless'.

Sir Derek Wanless
Chairman

EXPLANATORY STATEMENT



Deutsche Bank AG, London Branch
1 Great Winchester Street
London
EC2N 2DB

26 August 2011

To all Northumbrian Shareholders and, for information only, to Persons With Information Rights and to participants in the Northumbrian Share Plans

Dear Shareholder

**RECOMMENDED CASH ACQUISITION OF NORTHUMBRIAN WATER GROUP PLC
BY UK WATER (2011) LIMITED**

1. INTRODUCTION

On 2 August 2011, the Northumbrian Board and the Board of UK Water announced that they had agreed the terms of a recommended takeover of Northumbrian by UK Water. The Acquisition is to be effected by means of a scheme of arrangement of Northumbrian under Part 26 of the Companies Act, which requires the approval of Northumbrian Shareholders and the sanction of the Court. The Reduction of Capital involved in the Scheme requires the approval of Northumbrian Shareholders by special resolution at the General Meeting and the subsequent confirmation of the Court.

Your attention is drawn to the letter from the Chairman of Northumbrian, Sir Derek Wanless, set out in Part 1 of this document, which forms part of this Explanatory Statement. That letter contains, among other things, information on the background to and reasons for the Acquisition and the recommendation by the Northumbrian Board to Northumbrian Shareholders to vote in favour of the resolutions to approve and implement the Acquisition to be proposed at the Northumbrian Shareholder Meetings.

Your attention is also drawn to Part 3 (Conditions to and further terms of the Acquisition), Part 4 (Financial information concerning the Northumbrian Group) and Part 5 (Additional information) of this document. The Scheme is set out in full at Part 7 of this document.

The Northumbrian Board has been advised by Deutsche Bank in connection with the Acquisition. Deutsche Bank has been authorised by the Northumbrian Board to write to you to explain the terms of the Acquisition and to provide you with other relevant information.

2. STRATEGIC RATIONALE FOR THE ACQUISITION

CKI has a significant presence in infrastructure investment and management in the United Kingdom and, alongside its group companies, has jointly invested in assets including:

- UK Power Networks (100 per cent. ownership by Consortium Members and their affiliates, with 40 per cent. held by CKI and 20 per cent. by the Foundation), which was acquired in November 2010 from Electricité de France for £5.8 billion and forms the second largest group of electricity distribution companies in the UK. It comprises three distribution networks covering London, South East England, and the East of England, as well as non-regulated long-term contracts to operate and maintain private electricity distribution networks.

- Northern Gas Networks (88.4 per cent. ownership by CKI and its affiliates), which is one of eight major gas distribution networks in the United Kingdom, with a Regulated Asset Value of over £1.6 billion, and which serves over 2.6 million customers in the North of England.
- Seabank Power (50 per cent. ownership by CKI and its affiliates), which is a joint venture with Scottish and Southern Energy to own and operate the 1,140MW Seabank Power Station in Bristol and whose capacity is sold under long-term contract to SSE Energy Supply Ltd.

CKI and the Foundation also each hold a 4.75 per cent. interest in Southern Water and CKI previously owned 100 per cent. of Cambridge Water (see paragraph 6 below).

CKI would like to make a further significant investment in the regulated utilities sector in the UK, and in particular the water industry, a sector with which it is very familiar. CKI and the other Consortium Members recognise that Northumbrian is an asset of high quality and believe that the Acquisition represents an excellent investment opportunity.

3. SUMMARY OF THE TERMS OF THE ACQUISITION

The Acquisition is to be effected by way of a scheme of arrangement under Part 26 of the Companies Act, which requires the approval of Northumbrian Shareholders and the sanction of the Court.

Under the Acquisition, which is subject to the Conditions and further terms set out in Part 3 of this document, Scheme Shareholders will be entitled to receive:

For every Northumbrian ordinary share 465 pence in cash

Northumbrian Shareholders who were on the register at close of business on 12 August 2011 will also remain entitled to receive the net final dividend of 9.57 pence per Northumbrian Share in respect of the year ended 31 March 2011, to be paid on 9 September 2011.

The Acquisition values the entire issued share capital of Northumbrian at approximately £2,412 million. 465 pence per Northumbrian Share represents a premium of:

- approximately 26.4 per cent. to the Closing Price per Northumbrian Share of 367.9 pence at the close of business on 23 June 2011 (being the last Business Day prior to the press speculation concerning potential interest in Northumbrian);
- approximately 21.4 per cent. to the Closing Price per Northumbrian Share of 383.0 pence at the close of business on 24 June 2011 (being the last Business Day prior to the announcement by CKI that it was in the preliminary stages of assessing a potential cash offer for Northumbrian); and
- approximately 38.4 per cent. to the average Closing Price per Northumbrian Share of approximately 335.9 pence for the six months ended 24 June 2011.

4. INFORMATION ON THE NORTHUMBRIAN GROUP

Regulated operations

Northumbrian owns a number of companies, the largest of which, Northumbrian Water Limited, is one of the ten regulated water and sewerage businesses in England and Wales. Northumbrian Water Limited operates in the north east of England, where it trades as Northumbrian Water, and in the south east of England, where it trades as Essex & Suffolk Water. Northumbrian serves 2.7 million people in the north with water and sewerage services and 1.8 million people in the south with water services in a combined area of over 12,260 square kilometres.

Other operations

Northumbrian controls a number of special purpose companies which have water and waste water contracts in Scotland, Ireland and Gibraltar. Through its holding in Agrer, incorporated in Belgium, the Company also carries out project work in developing countries with a number of overseas aid-funded agencies.

Northumbrian is the owner of Kielder reservoir, the largest man-made reservoir in northern Europe, holding just under 200 billion litres of water. Northumbrian owns and operates the reservoir and is responsible for the management of the reservoir in accordance with the Environment Agency operating agreement. Northumbrian has a long term agreement with RWE nPower for it to operate and sell the energy from Northumbrian's hydroelectric power station at Kielder Water, which is the largest in England.

Financial information on Northumbrian

For the year ended 31 March 2011, Northumbrian reported revenues of £738.1 million (2010: £704.7 million) and profit before taxation from continuing operations of £181.0 million (2010: £170.2 million). Net assets as at 31 March 2011 were £475.9 million (2010: £313.9 million).

5. CURRENT TRADING OF THE NORTHUMBRIAN GROUP

As announced in Northumbrian's Interim Management Statement on 28 July 2011, trading for the period 1 April 2011 to 27 July 2011 has been in line with expectations.

Water and sewerage charges at the Northumbrian Group's principal subsidiary, Northumbrian Water Limited, have increased by 8.5 per cent. for 2011/12 (in line with the application of the K Factor of 3.8 per cent. and 4.7 per cent. in respect of the November 2010 Retail Price Index).

Operating costs for the 12 months to 31 March 2012 are expected to increase by around 3 per cent., reflecting inflationary pressures and new commitments resulting from the adoption of private drains and sewers and the Carbon Reduction Commitment, partially offset by efficiencies. Delivery of Northumbrian's efficiency programme is on schedule and, as a result, the business is ahead of the final determination profile in spite of these new commitments.

Capital investment in the regulated business is expected to progress in line with the final determination for the year. Northumbrian's major projects for the expansion of Abberton reservoir and construction of an advanced anaerobic digestion plant at Howdon are progressing well and remain on schedule.

6. INFORMATION ON THE CONSORTIUM

The Consortium comprises CKI, CKH and the Foundation.

CKI

CKI is the largest publicly listed infrastructure company in Hong Kong and is part of the Cheung Kong and Hutchison Whampoa group of companies, which together have a combined market capitalisation of approximately £70 billion. Globally it is a leading infrastructure investor with diversified investments in energy, transportation, and water businesses operating in Hong Kong, Mainland China, Australia, the United Kingdom, Canada, New Zealand and the Philippines.

CKI has built a strong portfolio of infrastructure investments in the energy sector and in particular regulated assets. These investments have generated a steady cash flow and attractive returns for the Cheung Kong Group.

CKI has also invested in water businesses in the UK and Australia with the acquisitions of Cambridge Water (2004 to 2011) and AquaTower (2004 to date). CKI also has a 4.75 per cent. interest in Southern Water in the UK.

Immediately prior to the Announcement, CKI completed the sale of Cambridge Water to HSBC.

CKH

CKH is a property development and strategic investment company. The company is one of the largest developers in Hong Kong of residential, commercial and industrial properties, with about one in seven private residences in Hong Kong being developed by the company.

With a 49.97 per cent. interest, CKH is the largest shareholder of Hutchison Whampoa Ltd, operating in ports and related services, property and hotels, retail, energy, infrastructure, investments and telecommunications.

The company also has substantial interests and operations in life sciences and other businesses.

The Foundation

The Foundation is a charitable organisation established by Mr. Li Ka-shing to nurture a culture of giving and to co-ordinate donations towards educational, healthcare, cultural and community welfare projects. The Foundation makes selective investment in quality projects both in Hong Kong and overseas from time to time to increase capital return for its charitable objectives.

Information on UK Water

UK Water is a private limited company incorporated in England and Wales on 28 January 2011. UK Water has not traded since its date of incorporation, nor has it entered into any obligations other than in connection with the Acquisition and the financing of the Acquisition. The current directors of UK Water are Kam Hing Lam, Edmond Ip and Andrew Hunter.

RBC is acting as lead financial adviser and corporate broker to UK Water. HSBC is acting as financial adviser and corporate broker to UK Water.

7. MANAGEMENT, EMPLOYEES AND LOCATIONS

UK Water attaches great importance to the skills and experience of the existing management and employees of the Northumbrian Group and believes they will be an important factor in the continuing success of the Northumbrian Group. Accordingly, UK Water confirms that the existing employment rights, including pension entitlements, of the management and employees of the Northumbrian Group will be fully safeguarded.

UK Water has no intention to change the major locations of the Northumbrian Group's places of business or to re-deploy the Northumbrian Group's fixed assets and no proposals exist to change materially the conditions of employment of any of the Northumbrian Group's employees.

Following the Acquisition becoming Effective, it is likely that UK Water will put in place incentivisation scheme(s) for certain members of the Northumbrian management team. No discussions in respect of the terms of such arrangements have taken place with such persons as at the date of this document.

8. UNDERTAKINGS TO VOTE IN FAVOUR OF THE SCHEME

UK Water has received an irrevocable undertaking from Ontario Teachers' Pension Plan Board, which has a beneficial holding of 138,776,864 Northumbrian Shares representing approximately 26.8 per cent. of Northumbrian's existing issued share capital: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept such Takeover Offer made by UK Water.

Ontario Teachers' Pension Plan Board has also undertaken to UK Water not to bid, or participate in any bid, for Northumbrian.

Each of the Northumbrian Directors who holds Northumbrian Shares has provided to UK Water irrevocable undertakings: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of his or her entire beneficial holdings of Northumbrian Shares and those of his or her family members (amounting to, in aggregate, 354,976 Northumbrian Shares, representing approximately 0.07 per cent. of the existing issued share capital of Northumbrian).

In addition, UK Water has received non-binding letters of intent from JP Morgan Asset Management and Artemis Investment Management LLP confirming their intention: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is

subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of 19,891,674 and 15,082,281 Northumbrian Shares respectively, representing approximately 3.8 and 2.9 per cent. respectively of Northumbrian's existing issued share capital. Artemis Investment Management LLP has subsequently sold 12,186,048 of its Northumbrian Shares, meaning its non-binding letter of intent now applies to 2,896,233 Northumbrian Shares, representing approximately 0.6 per cent. of Northumbrian's existing issued share capital.

Further details of these irrevocable undertakings and letters of intent are set out in paragraph 6 of Part 5 of this document.

9. FINANCING THE ACQUISITION

The cash consideration payable under the Acquisition will be funded using a mixture of equity and debt funding.

Approximately £2,200 million of funding for the Acquisition is being provided by the Consortium by the subscription of shares in UK Water and/or loan notes or other instruments issued by UK Water (in each case through one or more intermediate holding companies). CKI, CKH and the Foundation have committed to provide equity funding to UK Water (through such intermediate holdings companies) in the following proportions: CKI (40 per cent.), CKH (40 per cent.), and the Foundation (20 per cent.).

The balance of the consideration due under the Acquisition is being made available by way of debt finance pursuant to a credit agreement dated 31 July 2011 between UK Water and the Royal Bank of Canada, HSBC and Barclays Capital.

RBC and HSBC confirm that they are satisfied that sufficient financial resources are available to UK Water to enable it to satisfy in full the cash consideration payable under the Acquisition.

10. STRUCTURE OF THE ACQUISITION

(a) The Scheme

The Acquisition will be implemented by way of a court-sanctioned scheme of arrangement between Northumbrian and the Scheme Shareholders under Part 26 of the Companies Act. The procedure involves, *inter alia*, an application by Northumbrian to the Court to sanction the Scheme and to confirm the cancellation of all the Scheme Shares, in consideration for which the Scheme Shareholders will receive cash on the basis set out in paragraph 2 above. The cancellation of the Scheme Shares and the subsequent issue of new Northumbrian Shares to UK Water provided for in the Scheme will result in Northumbrian becoming a wholly-owned subsidiary of UK Water.

Save for the issue of the new Northumbrian Shares to UK Water pursuant to the Scheme, Northumbrian will not issue any shares after the Scheme Record Time until the Scheme has become Effective. No new Northumbrian Shares will be issued to satisfy awards under the LTIP. Instead existing Northumbrian Shares will be transferred from the Northumbrian EBT. To the extent that further Northumbrian Shares are required to satisfy the exercise of outstanding awards granted pursuant to the LTIP, Northumbrian is proposing to fund the trustee of the Northumbrian EBT to enable it to purchase such additional Northumbrian Shares in the market.

(b) Northumbrian Shareholder approvals

The Scheme will require the approval of the Scheme Shareholders at the Court Meeting and the approval of Northumbrian Shareholders at the General Meeting. The Court Meeting and the General Meeting will be held at 11.00 a.m. and 11.15 a.m., respectively, on 19 September 2011 at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London EC1A 2FG.

Notice of the Court Meeting is set out in Part 8 of this document and notice of the General Meeting is set out in Part 9 of this document. Entitlement to attend and vote at the Northumbrian Shareholder Meetings and the number of votes which may be cast at such meetings will be determined by reference to the register of members of Northumbrian at the Voting Record Time.

The Court Meeting is being held at the direction of the Court to seek the approval of the Scheme by Scheme Shareholders. At the Court Meeting, voting will be by poll and not a show of hands and each Scheme Shareholder present in person or by proxy will be entitled to one vote for each Scheme Share held. This resolution must be approved by a majority in number of the Scheme Shareholders present and voting, either in person or by proxy, representing not less than 75 per cent. in value of the Scheme Shares held by such Scheme Shareholders.

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of Scheme Shareholders. You are therefore strongly urged to complete, sign and return your Forms of Proxy, for both the Court Meeting and the General Meeting or use the electronic proxy appointment system, or complete your CREST proxy voting instructions, if applicable, as soon as possible.

In addition, the Scheme will require the approval of Northumbrian Shareholders at the General Meeting. The General Meeting has been convened to consider and, if thought fit, to pass the Resolution to approve the Reduction of Capital and subsequent issue of new Northumbrian Shares in accordance with the Scheme (which requires a vote in favour of not less than 75 per cent. of the votes cast, whether in person or by proxy).

Voting on the Resolution will be on a show of hands unless a poll is demanded. The Chairman reserves the right to demand that the vote of Northumbrian Shareholders be held by way of a poll and, in such event, each Northumbrian Shareholder present in person or by proxy will be entitled to one vote for every Northumbrian Share held.

(c) **The Court Hearings**

Following the Northumbrian Shareholder Meetings and the satisfaction of the other Conditions to the Acquisition, the Scheme also requires the sanction of the Court in accordance with the Companies Act. There will be one Court Hearing in order to sanction the Scheme and another to confirm the Reduction of Capital.

The Scheme Court Hearing to sanction the Scheme is expected to take place on 11 October 2011. All Northumbrian Shareholders are entitled to attend the Scheme Court Hearing in person or through counsel to support or oppose the sanctioning of the Scheme. The Reduction Court Hearing to confirm the Reduction of Capital is expected to occur on 13 October 2011. The gap between the two Court Hearings is included to allow the registration of Scheme Shares to be transferred to participants in the Northumbrian Share Plans.

The Scheme and the Reduction of Capital will become Effective as soon as office copies of the Scheme Court Order and the Reduction Court Order and the Statement of Capital have been delivered by Northumbrian to the Registrar of Companies for registration and, in the case of the Reduction of Capital and the Statement of Capital, if the Court so orders for the Scheme to be Effective, registered by him. This is expected to occur on or about 14 October 2011. It is intended that at this time Northumbrian will become a private limited company.

If the Scheme becomes Effective, it will be binding on all Scheme Shareholders, including any Scheme Shareholders who did not vote to approve the Scheme or who voted against the Scheme at the Court Meeting.

Unless the Scheme becomes Effective by no later than 27 January 2012, or such later date (if any) as Northumbrian and UK Water may, with the consent of the Panel, agree and (if required) the Court may approve, the Scheme will not become Effective and the Acquisition will not proceed.

(d) **Modifications to the Scheme**

The Scheme contains a provision for Northumbrian and UK Water to consent on behalf of all persons concerned to any modification of, or addition to, the Scheme or to any condition approved or imposed by the Court. The Court would be unlikely to approve any modification of, or additions to, or impose a condition to the Scheme which might be material to the interests of the Scheme Shareholders unless Scheme Shareholders were informed of such modification, addition or condition. It would be a matter for the Court to decide, in its discretion, whether or not a further meeting of Scheme Shareholders should be held in these circumstances.

(e) **Conditions**

The Acquisition is conditional upon the Scheme becoming unconditional and becoming Effective, subject to the City Code, by not later than 27 January 2012 or such later date (if any) as UK Water and Northumbrian may, with the consent of the Panel, agree and (if required) the Court may approve.

The Scheme is subject to the Conditions, including, among other things:

- the Scheme being approved by a majority in number of the Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment thereof) representing 75 per cent. or more in value of the Scheme Shares voted;
- the Resolution being duly passed by Scheme Shareholders representing not less than 75 per cent. of the votes cast at the General Meeting (or at any adjournment thereof);
- the sanction of the Scheme and the confirmation of the associated Reduction of Capital by the Court (in each case without modification or, if agreed by UK Water and Northumbrian, with modification); and
- an office copy of the Court Orders and Statement of Capital being delivered to the Registrar of Companies, and, if the Court so orders for the Scheme to become Effective, the registration by the Registrar of Companies of the Reduction Court Order and the Statement of Capital; and
- if the Acquisition constitutes a concentration with a Community dimension as defined in Council Regulation (EC) No.139/2004 (the “**EU Merger Regulation**”), either:
 - (i) the European Commission deciding, in terms and in a form reasonably satisfactory to UK Water, that it does not intend to initiate proceedings under Article 6(1)(c) of the EU Merger Regulation in relation to the proposed acquisition of control of Northumbrian by UK Water and/or any Consortium Member, or the European Commission being deemed to have so decided in accordance with Article 10(6) of the EU Merger Regulation; or
 - (ii) if the European Commission has adopted a decision pursuant to Article 9(3) of the Regulation (or is deemed under Article 9(5) of the Regulation to have adopted such a decision) to refer the Acquisition in whole or part to the UK’s Office of Fair Trading:
 - (A) approval having been obtained (whether by decision, expiry or termination of waiting periods or otherwise) from the UK’s Office of Fair Trading to which the whole or any part of the Acquisition has been referred in terms and in a form reasonably satisfactory to UK Water; and
 - (B) if only part of the Acquisition has been so referred, the European Commission having adopted a decision in respect of that part of the Acquisition not so referred to such competent authority.

The Conditions are set out in full in Part 3 of this document.

(f) **Alternative means of implementing the Acquisition**

UK Water has reserved the right to implement the Acquisition by way of Takeover Offer. If it elects to do so, additional documents will be required to be sent to Northumbrian Shareholders. In such event, the Takeover Offer will (unless otherwise agreed) be implemented on the same terms (subject to appropriate amendments, including the inclusion of an acceptance condition set at 75 per cent. of the shares to which such Takeover Offer relates or such other percentage (being more than 50 per cent.) as UK Water may decide (subject to Panel consent)) as those which would apply to the Scheme.

11. BREAK FEE LETTER

Northumbrian and UK Water have entered into the Break Fee Letter, under which Northumbrian has agreed to make a payment of £24.1 million to UK Water under certain circumstances. An overview of the material provisions of the Break Fee Letter is set out in paragraph 7(b) of Part 5 of this document.

12. NORTHUMBRIAN DIRECTORS AND THE EFFECT OF THE SCHEME ON THEIR INTERESTS

Details of the interests of the Northumbrian Directors in Northumbrian Shares are set out in paragraph 4 of Part 5 of this document.

The Northumbrian Directors have irrevocably undertaken to vote in favour of the Scheme as described in paragraph 8 of this Part 2.

In common with other participants in Northumbrian Share Plans, the Northumbrian Directors who are holders of awards under those plans will have awards which vest and/or will be able to exercise their awards as described in further detail in paragraph 13 of this Part 2.

Save as set out in this document, there are currently no proposed changes to the service contracts of any Northumbrian Director and no proposed termination payment for any Northumbrian Director and the effect of the Scheme on the interests of the Northumbrian Directors does not differ from its effect on the like interests of any other Northumbrian Shareholder.

13. NORTHUMBRIAN SHARE PLANS

Northumbrian operates two employee share plans, the LTIP and the SIP. The effect of the Scheme on the Northumbrian Share Plans can be briefly summarised as follows:

(a) **The LTIP**

The LTIP comprises conditional awards of Northumbrian Shares in the form of nil-cost options. The awards are subject to three-year performance conditions.

Awards under the LTIP will vest and become exercisable on the date that the Scheme Court Order is made, if and to the extent that performance conditions are met, as determined by the Remuneration Committee, in accordance with the rules of the LTIP. Awards will be exercisable until the end of the day following the date the Scheme Court Order is made. Any awards not exercised in that period will lapse on the Effective Date. All Northumbrian Shares transferred on the exercise of awards under the LTIP before the Scheme Record Time will be subject to the Scheme and will constitute Scheme Shares.

(b) **The SIP**

The trustee of the SIP already holds Northumbrian Shares for participants in the SIP. Accordingly, participants in the SIP will participate in the Scheme in the same way as other Shareholders through the trustee acting on their behalf. Cash consideration for these Northumbrian Shares under the Scheme will be paid to the participants.

Northumbrian and UK Water have agreed that a payment will be made to employees who were participants in the SIP as at 2 August 2011 to compensate for the loss of tax advantages on the shares

in the SIP. The payment to each participant will be an amount which, after income tax and employees' national insurance contributions have been withheld, is equal to the income tax and employees' national insurance contributions liability arising on the early release of his or her shares from the SIP as a result of the Scheme. This payment will not be made to employees who joined the SIP after 2 August 2011.

Northumbrian and UK Water have agreed that participants will not forfeit their entitlement to matching shares as a result of the Scheme.

(c) **Northumbrian EBT**

Northumbrian Shares held in the Northumbrian EBT will be available to satisfy the exercise of awards under the LTIP. The trustee of the Northumbrian EBT currently holds 754,144 Northumbrian Shares which will be used to satisfy outstanding awards granted pursuant to the LTIP. To the extent that further Northumbrian Shares are required to satisfy the exercise of outstanding awards granted pursuant to the LTIP, Northumbrian is proposing to fund the trustee of the Northumbrian EBT to enable it to purchase such additional Northumbrian Shares in the market.

14. SETTLEMENT

Subject to the Scheme becoming Effective, settlement of the consideration to which any Scheme Shareholder is entitled under the Scheme will be effected in the manner set out in this paragraph 14.

(a) **Scheme Shares in uncertificated form (that is, in CREST)**

Where at the Scheme Record Time, a Scheme Shareholder holds Scheme Shares in uncertificated form, settlement of cash consideration to which the Scheme Shareholder is entitled will be posted or despatched through CREST within 14 days following the Effective Date. UK Water will procure that Euroclear is instructed to create an assured payment obligation in favour of the Shareholder's payment book in respect of the cash consideration due in accordance with the CREST assured payment arrangements.

As from the Effective Date, each holding of Northumbrian Shares credited to any stock account in CREST will be disabled and all Northumbrian Shares will be removed from CREST in due course.

(b) **Scheme Shares in certificated form (that is, not in CREST)**

Where at the Scheme Record Time, a Scheme Shareholder holds Scheme Shares in certificated form, the settlement of cash consideration to which the Scheme Shareholder is entitled will be despatched within 14 days following the Effective Date by first class post to the address appearing in the register of members of Northumbrian, at the Scheme Record Time or, in the case of joint holders, to the holder whose name stands first in that register in respect of the joint holding concerned. All such cash payments will be made in pounds sterling by cheque drawn on a branch of a clearing bank in the United Kingdom.

(c) **General**

All documents and remittances sent to Scheme Shareholders in accordance with this paragraph 14 will be sent at the risk of those Scheme Shareholders and will be sent by post.

As from the Effective Date each certificate representing a holding of Scheme Shares will cease to be valid and should be destroyed.

Save with the consent of the Panel, settlement of the consideration to which any Scheme Shareholder is due under the Scheme will be implemented in full in accordance with the terms set out in this Part 2 without regard to any lien, right of set off, counterclaim or analogous right to which UK Water may otherwise be, or claim to be, entitled against any Scheme Shareholder.

15. OVERSEAS SHAREHOLDERS

The implications of the Acquisition for persons resident in, or citizens of, jurisdictions outside the United Kingdom may be affected by the laws of the relevant jurisdictions. Such Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom. Overseas Shareholders should consult their own legal and tax advisers with regard to the legal and tax consequences of the Scheme to their particular circumstances.

16. UNITED KINGDOM TAXATION

The following paragraphs, which are intended as a general guide only, are based on current UK legislation and HM Revenue & Customs practice in force at the date of this document. They summarise certain limited aspects of the UK taxation consequences of the Scheme and relate only to the position of Scheme Shareholders who hold their Scheme Shares beneficially as an investment, unless otherwise indicated, and who are resident and, in the case of individuals, ordinarily resident in the UK for taxation purposes at all relevant times. The tax position of certain categories of Scheme Shareholders who are subject to special rules (such as persons acquiring their shares in connection with an office or employment (including pursuant to options granted pursuant to the Northumbrian Share Plans), dealers in securities, insurance companies and collective investment schemes) is not considered. If you are in any doubt as to your taxation position, or if you are subject to taxation in any jurisdiction other than the UK, you should consult an appropriate professional adviser without delay.

(a) UK taxation of chargeable gains

The receipt by Scheme Shareholders of cash under the Scheme will be treated as a disposal of their Scheme Shares which may, depending on the Scheme Shareholders' particular circumstances (including the availability to them of exemptions, reliefs or allowable losses), give rise to a liability to UK tax on chargeable gains.

(i) *Individual Scheme Shareholders*

The receipt of cash under the Scheme by an individual Scheme Shareholder may, depending on their individual circumstances, give rise to a chargeable gain or allowable loss for the purposes of the UK taxation of chargeable gains. A Scheme Shareholder who is an individual and who is temporarily non-resident in the UK for taxation purposes may, under anti-avoidance legislation, still be liable to UK taxation on a chargeable gain realised upon the receipt of cash under the Scheme during the period when he is non-resident.

(ii) *Corporate Scheme Shareholders*

For Scheme Shareholders within the charge to UK corporation tax (but which do not qualify for the substantial shareholdings exemption in respect of their Scheme Shares), a disposal of Scheme Shares may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax. Indexation allowance should normally be available in respect of the full period of ownership of the Scheme Shares to reduce any chargeable gain arising (but not create or increase any allowable loss) on the disposal of their Scheme Shares by such a Scheme Shareholder.

(b) Stamp duty and Stamp Duty Reserve Tax ("SDRT")

No stamp duty or SDRT will be payable by holders of Scheme Shares as a result of the Scheme.

17. SUSPENSION, DELISTING AND RE-REGISTRATION

It is intended that dealings in Northumbrian Shares will be suspended at 5.00 p.m. UK time on 12 October 2011. It is intended that the London Stock Exchange will be requested to cancel the admission to trading of the Northumbrian Shares on the London Stock Exchange's main market for listed securities and that the UK Listing Authority will be requested to cancel the listing of the Northumbrian Shares on the Official List, subject to applicable rules and requirements of the London Stock Exchange, such cancellations to take effect on or shortly after the Effective Date.

On the Effective Date, Northumbrian will become a wholly-owned subsidiary of UK Water and share certificates in respect of Northumbrian Shares will cease to be valid and should be destroyed. In addition, on the Effective Date, entitlements to Northumbrian Shares held within the CREST system will be cancelled. It is also intended that, as part of the Scheme, Northumbrian will be re-registered as a private limited company under the relevant provisions of the Companies Act.

18. ACTION TO BE TAKEN

Northumbrian Shareholders will find enclosed with this document a BLUE Form of Proxy to be used in connection with the Court Meeting and a WHITE Form of Proxy to be used in connection with the General Meeting.

Whether or not you intend to attend the Court Meeting and/or the General Meeting, please complete and sign both Forms of Proxy and return them to Northumbrian's Registrars, Capita Registrars Limited at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive as soon as possible and in any event at least 48 hours prior to the relevant meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK).

If the BLUE Form of Proxy for the Court Meeting is not lodged so as to be received by 11.00 a.m. on 15 September 2011, it may be handed to the Chairman of the Court Meeting at the commencement of the Court Meeting. However, in the case of the General Meeting, unless the WHITE Form of Proxy is lodged so as to be received by 11.15 a.m. on 15 September 2011, it will be invalid. The completion and return of a Form of Proxy will not prevent you from attending the Court Meeting or the General Meeting and voting in person, if you so wish and are so entitled.

If you hold your Scheme Shares in uncertificated form (i.e. in CREST), you may vote using the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual (please also refer to the relevant guidance in the Notice of the Court Meeting and the accompanying notes to the Notice of the General Meeting set out at the end of this document).

Proxies submitted via CREST (under CREST participant ID RA10) must be received by Northumbrian's Registrars, Capita Registrars Limited not later than 11.00 a.m. on 15 September 2011 in the case of the Court Meeting and by 11.15 a.m. on 15 September 2011 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK)).

Northumbrian Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so by completing and submitting their Form of Proxy online through the website of Northumbrian's Registrars, Capita Registrars Limited, at www.capitashareportal.com. To vote online you will need to log in to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the Form of Proxy. A proxy appointment made electronically will not be valid if sent to any address other than that provided or, if received after 11.00 a.m. on 15 September 2011 in the case of the Court Meeting or 11.15 a.m. on 15 September 2011 in the case of the General Meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

The completion and return of a Form of Proxy will not prevent you from attending and voting at the Court Meeting or the General Meeting, or any adjournment thereof, in person if you should wish and if you are entitled to do so.

It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of opinion of Scheme Shareholders. You are therefore strongly urged to complete, sign and return your Forms of Proxy, for both the Court Meeting and the General Meeting or use the electronic proxy appointment system, or complete your CREST proxy voting instructions, if applicable, as soon as possible.

If you have any questions relating to this document or the completion and return of your Forms of Proxy, please contact the Northumbrian Shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 664 0321 (from within the UK) or +44 20 8639 3399 (from outside the UK). Calls to the 0871 664 0321 number will be charged at 10 pence per minute plus network extras. Calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice.

19. FURTHER INFORMATION

The terms of the Scheme are set out in full at the end of this document.

Yours faithfully

Alan Brown
For and on behalf of Deutsche Bank

Omar Faruqi
For and on behalf of Deutsche Bank

PART 3

CONDITIONS TO AND FURTHER TERMS OF THE ACQUISITION

PART A: CONDITIONS TO THE ACQUISITION

1. The Acquisition is conditional upon the Scheme becoming unconditional and becoming Effective, subject to the City Code, by not later than 27 January 2012 or such later date (if any) as UK Water and Northumbrian may, with the consent of the Panel, agree and (if required) the Court may approve.
2. The Scheme is conditional upon:
 - (a) the approval of the Scheme by a majority in number of the Scheme Shareholders present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment thereof), representing 75 per cent. or more in value of the Scheme Shares held by such holders;
 - (b) the special resolution(s) required to approve and implement the Scheme, as set out in the notice of the General Meeting, being duly passed by the requisite majority at the General Meeting (or at any adjournment thereof);
 - (c) the sanction of the Scheme and the confirmation of the Reduction of Capital by the Court (in each case without modification or, if agreed by UK Water and Northumbrian, with modification); and
 - (d) an office copy of the Court Orders and Statement of Capital being delivered to the Registrar of Companies, and, if the Court so orders for the Scheme to become Effective, the registration by the Registrar of Companies of the Reduction Court Order and the Statement of Capital.
3. In addition, Northumbrian and UK Water have agreed that, subject to Part B below, application to the Court to sanction the Scheme is conditional upon the following matters and, accordingly, the necessary actions to make the Scheme Effective will not be taken unless the following Conditions (as amended, if appropriate) have been satisfied or waived:
 - (a) if the Acquisition constitutes a concentration with a Community dimension as defined in Council Regulation (EC) No.139/2004 (the “**EU Merger Regulation**”), either:
 - (i) the European Commission deciding, in terms and in a form reasonably satisfactory to UK Water, that it does not intend to initiate proceedings under Article 6(1)(c) of the EU Merger Regulation in relation to the proposed acquisition of control of Northumbrian by UK Water and/or any Consortium Member, or the European Commission being deemed to have so decided in accordance with Article 10(6) of the EU Merger Regulation; or
 - (ii) if the European Commission has adopted a decision pursuant to Article 9(3) of the Regulation (or is deemed under Article 9(5) of the Regulation to have adopted such a decision) to refer the Acquisition in whole or part to the UK’s Office of Fair Trading:
 - (A) approval having been obtained (whether by decision, expiry or termination of waiting periods or otherwise) from the UK’s Office of Fair Trading to which the whole or any part of the Acquisition has been referred in terms and in a form reasonably satisfactory to UK Water; and
 - (B) if only part of the Acquisition has been so referred, the European Commission having adopted a decision referred to in clause 3(a)(i) in respect of that part of the Acquisition not so referred to such competent authority; and
 - (b) other than as provided for in Condition at 3(a), where any EU Member State has taken or indicated that it may take measures to protect legitimate interests pursuant to Article 21(4) of the Regulation, such approval having been obtained or waiting periods having been observed

and the Acquisition therefore having been permitted to proceed either in terms and in a form reasonably satisfactory to UK Water.

- (c) other than in respect of the Conditions at 3(a) and 3(b), all notifications and filings which are necessary or appropriate in the context of the Acquisition having been made, all appropriate waiting and other time periods (including any extensions of such waiting and other time periods) under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory or regulatory obligations in any relevant jurisdiction having been complied with in all material respects in each case in connection with the Scheme or the Acquisition, or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by any member of the Wider UK Water Group or the carrying on by any member of the Wider Northumbrian Group of its business in the ordinary course as at the date hereof, excluding in all such cases any obligation to obtain approval of the Acquisition from the shareholders of any member of the Wider UK Water Group;
- (d) all material Authorisations in any jurisdiction which are necessary or appropriate for, or in respect of, or required for the implementation of, the Scheme or the Acquisition, or any acquisition of or any proposed acquisition of any shares in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group having been obtained in terms and in a form satisfactory to UK Water from any Third Parties (excluding in all such cases any Authorisations from the shareholders of any member of the Wider UK Water Group) and all such Authorisations remaining in full force and effect and no such Third Party or relevant person or body having given notice of its intention to revoke, suspend, restrict, modify or not to renew any of the same, in each case where the absence of such Authorisation would be material in the context of the Acquisition;
- (e) all material Authorisations in any jurisdiction which are necessary or appropriate to carry on the business of any member of the Wider Northumbrian Group remaining in full force and effect and there being no intimation of any intention to revoke, suspend, restrict, modify or not to renew the same, in each case where the absence of such Authorisation would be material in the context of the Acquisition;
- (f) with the exception of any modification proposed by Ofwat with respect to the Instrument of Appointment, no Third Party having intervened and there not continuing to be outstanding any statute, regulation, order or decision of any Third Party in each case that would:
 - (i) make the Scheme or the Acquisition or, in each case, its implementation illegal, prohibited, void or unenforceable under the laws of any jurisdiction; or
 - (ii) make the acquisition or proposed acquisition of any shares in, or control or management of, Northumbrian or any member of the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group illegal, void or unenforceable in any jurisdiction; or
 - (iii) otherwise directly or indirectly prevent, prohibit, restrict, restrain, delay or interfere in the implementation of, or impose additional conditions or obligations with respect to, or otherwise impede, challenge, interfere with, or require amendment to, the Scheme or the Acquisition or any acquisition or proposed acquisition of Northumbrian Shares or the acquisition of control or management of Northumbrian or the Wider Northumbrian Group by UK Water or any member of the Wider UK Water Group, in each such case to an extent which is material in the context of the Acquisition; or

- (iv) require, prevent or materially delay the divestiture or alter the terms for any proposed divestiture by any member of the Wider UK Water Group of any Northumbrian Shares or other securities in Northumbrian or of all or any part of their respective businesses, assets or property, or impose any limitation on the ability of any member of the Wider UK Water Group or the Wider Northumbrian Group to conduct any of their respective businesses or own or control any of their respective assets or property or any part thereof in each such case to an extent which is material in the context of the Acquisition; or
- (v) limit or delay, or impose any limitation on the ability of any member of the Wider UK Water Group or any member of the Wider Northumbrian Group to acquire or hold or exercise effectively, directly or indirectly, all or any rights of ownership in respect of shares or other securities or the equivalent in any member of the Wider Northumbrian Group or to exercise management control over any member of the Wider Northumbrian Group or any member of the Wider UK Water Group; or
- (vi) except pursuant to sections 974 to 991 of the Companies Act, require any member of the Wider UK Water Group or of the Wider Northumbrian Group to acquire or to offer to acquire any shares or other securities (or the equivalent) in any member of the Wider Northumbrian Group or any member of the Wider UK Water Group owned by any Third Party or to sell or offer to sell any shares or other securities (or their equivalent) or any interest in any of the assets owned by any member of the Wider UK Water Group or the Wider Northumbrian Group, in each such case to an extent which is material in the context of the Acquisition; or
- (vii) limit the ability of any member of the Wider UK Water Group or the Wider Northumbrian Group to conduct or integrate or coordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Wider UK Water Group or of the Wider Northumbrian Group; or
- (viii) result in any member of the Wider UK Water Group or the Wider Northumbrian Group ceasing to be able to carry on business under any name under which it presently does so or ceasing to be able to use in its business any name, trademark or other intellectual property right which it as present uses in each case on the same basis and terms as at present apply to an extent which is material in the context of the Wider UK Water Group taken as a whole or the Wider Northumbrian Group taken as a whole; or
- (ix) otherwise adversely affect any or all of the businesses, assets, profits, financial or trading position of any member of the Wider UK Water Group or the Wider Northumbrian Group in each case to the extent that it is material in the context of the Wider UK Water Group or the Wider Northumbrian Group taken as a whole,

and all applicable waiting and other time periods during which any Third Party could announce or notify any decision to take, institute, implement or threaten any such action, proceedings, suit, investigation, reference or enquiry, or make, propose or enact any statute, regulation, decision or order or take any measures or other steps or require any action to be taken or information to be provided or otherwise intervene under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated;

- (g) since 31 March 2011, and except as Disclosed, there being no provision of any agreement, arrangement, licence, permit, franchise or other instrument to which any member of the Wider Northumbrian Group is a party or by or to which any such member, or any of its assets is or are or may be bound, entitled or subject or any circumstance which, in each case as a consequence of the Scheme or the Acquisition or of the acquisition or proposed acquisition of all or any part of the issued share capital or other securities in, or control or management of, Northumbrian or any other member of the Wider Northumbrian Group by any member of the Wider UK Water Group or otherwise, would or might be expected to result in, to an extent

which is or would be material in the context of the Wider Northumbrian Group taken as a whole:

- (i) any assets or interests of any member of the Wider Northumbrian Group being or falling to be disposed of or charged in any way or ceasing to be available to any member of the Wider Northumbrian Group or any right arising under which any such asset or interest could be required to be disposed of or charged in any way or could cease to be available to any member of the Wider Northumbrian Group otherwise than in the ordinary course of business; or
 - (ii) any moneys borrowed by or other indebtedness or liabilities (actual or contingent) of, or any grant available to, any member of the Wider Northumbrian Group being or becoming repayable or capable of being declared repayable immediately or earlier than its stated repayment date or the ability of such member of the Wider Northumbrian Group to borrow monies or incur any borrowing or indebtedness becoming or being capable of becoming withdrawn, inhibited or prohibited; or
 - (iii) any such agreement, arrangement, licence, permit, franchise or instrument, or the rights, liabilities, obligations or interests of any member of the Wider Northumbrian Group thereunder being, or being capable of being, terminated or adversely modified or affected or any adverse action being taken or any obligation or liability arising thereunder; or
 - (iv) the rights, liabilities, obligations, interests or business of any member of the Wider Northumbrian Group under any such arrangement, agreement, licence, permit, franchise or other instrument or the interests or business of any such member in or with any other person, firm, company or body (or any arrangement or arrangements relating to any such interests or business) being terminated or adversely modified or affected; or
 - (v) the financial or trading position of any member of the Wider Northumbrian Group being prejudiced or adversely affected; or
 - (vi) the creation of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interests of any member of the Wider Northumbrian Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen) becoming enforceable or being enforced; or
 - (vii) any member of the Wider Northumbrian Group ceasing to be able to carry on business under any name under which or on the terms on which it currently does so or any person presently not able to carry on business under any name under which any member of the Wider Northumbrian Group currently does becoming able to do so; or
 - (viii) the creation of actual or contingent liabilities by any member of the Wider Northumbrian Group; or
 - (ix) the ability of any member of the Wider UK Water Group to carry on any business or activity being adversely affected in any material respect; and
 - (x) no event having occurred which, under any provision of any such agreement, arrangement, licence, permit, franchise or other instrument could result in any of the events or circumstances which are referred to paragraphs (i) to (ix) (inclusive) of this Condition 3(g) arising;
- (h) since 31 March 2011, and except as Disclosed, no member of the Wider Northumbrian Group having:
- (i) issued or agreed to issue or authorised or proposed the issue or grant of additional shares of any class or securities convertible into or exchangeable for, rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred or

sold any shares out of treasury, other than (A) as between Northumbrian and wholly-owned subsidiaries of Northumbrian or between such wholly-owned subsidiaries and (B) any shares issued or transferred from treasury upon the exercise of options or the vesting of awards granted under the Northumbrian Share Plans); or

- (ii) redeemed, purchased, repaid or reduced or proposed the redemption, purchase, repayment or reduction of any part of its share capital or made or proposed the making of any other change to its share capital (other than pursuant to the implementation of the Scheme or the Acquisition); or
- (iii) made or authorised any change in its loan capital (save as between Northumbrian and its wholly-owned subsidiaries, and which would be material in the context of the Wider Northumbrian Group taken as a whole); or
- (iv) recommended, declared, paid or made or proposed to recommend, declare, pay or make any dividend, bonus issue or other distribution whether payable in cash or otherwise; or
- (v) (other than as a transaction between Northumbrian or a wholly-owned subsidiary of Northumbrian or between such wholly-owned subsidiaries) merged with or demerged from, or acquired, any body corporate, partnership or business or authorised or proposed or announced any intention to propose the same; or
- (vi) acquired or disposed of, transferred, mortgaged or charged, or created or granted any security interest over, any assets or any right, title or interest in any assets (including shares and trade investments) or authorised or proposed or announced any intention to propose any acquisition, disposal, transfer, mortgage, charge or creation or grant of any mortgage, charge or other security interest (which in any case is material in the context of the Wider Northumbrian Group taken as a whole); or
- (vii) issued or authorised or proposed the issue of, or made any changes to, any debentures or incurred or, save in the ordinary course of business, increased any borrowings, indebtedness or liability (actual or contingent) of any aggregate amount which is material in the context of the Wider Northumbrian Group taken as a whole; or
- (viii) entered into or varied, or authorised or proposed the entry into or variation of, or announced its intention to enter into or vary, any agreement, transaction, arrangement, contract or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or could involve an obligation of such nature or magnitude or which is or could be restrictive to the existing business of any member of the Wider Northumbrian Group or which is other than in the ordinary course of business and which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
- (ix) other than in relation to the implementation of the Scheme or Acquisition, entered into, implemented, effected, authorised or proposed or announced its intention to enter into, implement, effect, authorise or propose any merger, demerger, contract, reconstruction, amalgamation, scheme, commitment or other transaction or arrangement in respect of itself or another member of the Wider Northumbrian Group which in any case is material in the context of the Northumbrian Group taken as a whole; or
- (x) waived or compromised any claim which is material in the context of the Wider Northumbrian Group taken as a whole; or
- (xi) entered into or varied or made any offer (which remains open for acceptance) to enter into or vary the terms of any contract, agreement or arrangement with any of the directors or senior executives of Northumbrian or any member of the Northumbrian Group; or

- (xii) taken or proposed any corporate action or had any legal proceedings instituted or threatened against it or petition presented or order made for its winding-up (voluntarily or otherwise), dissolution or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or any of its assets and revenues or for any analogous proceedings or steps in any jurisdiction or for the appointment of any analogous person in any jurisdiction; or
 - (xiii) been unable, or admitted in writing that it is unable, to pay its debts or has stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business; or
 - (xiv) other than as required by the implementation of the Scheme or the Acquisition, made any alteration to its memorandum or articles of association, or other incorporation documents which is material in the context of the Acquisition; or
 - (xv) made or agreed or consented to:
 - (A) any change to:
 - (1) the terms of the trust deeds constituting the pension schemes established for its directors, employees or their dependants; or
 - (2) the benefits which accrue or to the pensions which are payable thereunder; or
 - (3) the basis on which qualification for, or accrual or entitlement to such benefits or pensions are calculated or determined; or
 - (4) the basis upon which the liabilities (including pensions) or such pension schemes are funded or made,

in each case, which has an effect that is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (B) any change to the trustees of such pension schemes, including the appointment of a trust corporation; or
 - (xvi) other than as required by the implementation of the Scheme or the Acquisition, proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Northumbrian Group which, in each case, is material in the context of the Wider Northumbrian Group taken as a whole;
 - (xvii) entered into any agreement, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) or proposed or announced any intention with respect to any of the transactions, matters or events referred to in this Condition 3(h);
- (i) since 31 March 2011, and except as Disclosed:
- (i) no litigation or arbitration proceedings, prosecution, investigation or other legal proceedings having been announced, implemented, instituted, threatened or remaining outstanding by, against or in respect of, any member of the Wider Northumbrian Group or to which any member of the Wider Northumbrian Group is or may become a party (whether as claimant, defendant or otherwise) which is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (ii) no adverse change or deterioration having occurred in the business, assets, financial or trading position, assets or profits of any member of the Wider Northumbrian Group which is material in the context of the Wider Northumbrian Group taken as a whole; or

- (iii) no enquiry or investigation by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Northumbrian Group having been threatened, announced, implemented or instituted or remaining outstanding by, against or in respect of, any member of the Wider Northumbrian Group which in any such case is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (iv) no member of the Wider Northumbrian Group having conducted its business in breach of any applicable laws and regulations in any material respect which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (v) no contingent or other liability of any member of the Wider Northumbrian Group having arisen or become apparent or increased which is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (vi) no steps having been taken which are likely to result in the withdrawal (without replacement), cancellation or termination of any licence, permit, authorisation or consent held by any member of the Wider Northumbrian Group which is material in the context of the Wider Northumbrian Group taken as a whole;
- (j) UK Water not having discovered other than to the extent otherwise Disclosed:
- (i) that any financial or business or other information concerning the Wider Northumbrian Group that has been Disclosed is misleading or contains any misrepresentation of fact or omits to state a fact necessary to make any information contained therein not misleading to an extent which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (ii) that any member of the Wider Northumbrian Group is subject to any liability (actual or contingent) which is not disclosed in Northumbrian's annual report and accounts for the financial year ended 31 March 2011 and which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (iii) any information which affects the import of any information Disclosed to an extent which is material in the context of the Wider Northumbrian Group; or
 - (iv) that any past or present member of the Wider Northumbrian Group has not complied with any applicable legislation or regulations of any jurisdiction with regard to the use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health, or otherwise relating to environmental matters or the health and safety of any person, or that there has otherwise been any such use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission (whether or not this constituted a non compliance by any person with any legislation or regulations and wherever the same may have taken place) which, in any case, would be likely to give rise to any liability (whether actual or contingent) or cost on the part of any member of the Wider Northumbrian Group which in any case is material in the context of the Wider Northumbrian Group taken as a whole; or
 - (v) that there is, or is likely to be, any liability, whether actual or contingent, to make good, repair, reinstate or clean up any property now or previously owned, occupied or made use of by any past or present member of the Wider Northumbrian Group or any other property or any controlled waters under any environmental legislation, regulation, notice, circular, order or other lawful requirement of any relevant authority or Third Party or otherwise which in any case is material in the context of the Wider Northumbrian Group taken as a whole.

PART B: CERTAIN FURTHER TERMS OF THE ACQUISITION

4. Conditions 3(a) to 3(j) (inclusive) must each be fulfilled or determined by UK Water to be or to remain satisfied or (if capable of waiver) be waived by no later than 11.59 p.m. on the date immediately preceding the date of the Scheme Court Hearing, failing which the Scheme will lapse.
5. Subject to the requirements of the Panel, UK Water reserves the right in its sole discretion to waive all or any of the Conditions 3(a) to 3(j) (inclusive), in whole or in part.
6. UK Water shall be under no obligation to waive (if capable of waiver) or to determine to be satisfied, or to treat as fulfilled, any of the Conditions 3(a) to 3(j) (inclusive) by a date earlier than that date specified in Condition 1 for the fulfilment thereof notwithstanding that some of the other Conditions 3(a) to 3(j) (inclusive) may at some earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.
7. UK Water reserves the right to elect to implement the Acquisition by way of a Takeover Offer (as defined in section 974 of the Companies Act), subject to the Panel's consent if required. In such event, such Takeover Offer will be implemented on the same terms and conditions (subject to appropriate amendments, including (without limitation) an acceptance condition set at 75 per cent. (or such percentage (being more than 50 per cent.) as UK Water may decide (in each case, subject to the Panel's consent)) of the shares to which such Takeover Offer relates, so far as applicable, as those which would apply to the Scheme.
8. If the Panel requires UK Water to make an offer or offers for any Northumbrian Shares under the provisions of Rule 9 of the City Code, UK Water may make such alterations to the Conditions, including Condition 1, as are necessary to comply with the provisions of that Rule.
9. The Acquisition is subject to such further terms as may be required to comply with the Listing Rules and the provisions of the City Code.
10. The Acquisition will lapse and the Scheme will not proceed if, prior to the date of the Court Meeting, either the European Commission initiates proceedings under Article 6(1)(c) of Council Regulation (EC) No. 139/2004 or the Acquisition is, or any part of the Acquisition is, referred to the Competition Commission.
11. Save to the extent cancelled pursuant to the Scheme, the Northumbrian Shares will be acquired by UK Water fully paid and free from all liens, equitable interests, charges, encumbrances and other third party rights of any nature whatsoever and together with all rights attaching to them, including the right to receive and retain all dividends and distributions (if any) declared, made or payable after the Effective Date.
12. The Acquisition and the Scheme and any Forms of Proxy will be governed by English law and will be subject to the jurisdiction of the English courts. The City Code applies to the Acquisition.
13. The availability of the Acquisition to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.
14. Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

PART 4

FINANCIAL INFORMATION CONCERNING THE NORTHUMBRIAN GROUP INCORPORATED BY REFERENCE

The information listed below relating to Northumbrian is hereby incorporated by reference into this document. Northumbrian will provide within two business days, without charge, to each person to whom a copy of this document has been sent (whether electronically, by website notification or in hard copy form), upon their written or verbal request, a copy of any information incorporated by reference in this document. Requests for any such copies should be directed to Northumbrian's Registrars, Capita Registrars Limited, at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or on 0871 664 0321 (or if calling from outside the UK +44 20 8639 3399) with an address to which the hard copy may be sent. Copies of any information incorporated by reference in this document will not be provided unless such a request is made.

City Code

<i>Reference</i>	<i>Information</i>	<i>Source of Information</i>
24.2(a)(i)	Turnover, net profit or loss before and after taxation, the charge for tax, extraordinary items, minority interests, the amount absorbed by dividends and earnings and dividends per share for Northumbrian for the three years ended 3 January 2011	<p>Northumbrian Annual Report & Accounts 2011, Consolidated Income Statement on page 88.</p> <p>If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_AR11.pdf</p> <p>Northumbrian Annual Report & Financial Statements 2010, Consolidated Income Statement on page 84.</p> <p>If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_2010.pdf</p> <p>Northumbrian Annual Report & Financial Statements 2009, Consolidated Income Statement on page 67.</p> <p>If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_AR_2009.pdf</p>

<i>City Code Reference</i>	<i>Information</i>	<i>Source of Information</i>
24.2(a)(ii)	A statement of the assets and liabilities shown in the audited accounts for Northumbrian for the year ended 31 March 2011, being the last published audited accounts	Northumbrian Annual Report & Accounts 2011, Consolidated Balance Sheet on page 91. If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_AR11.pdf
24.2(a)(iii)	A cash flow statement as provided in the audited accounts for Northumbrian for the year ended 31 March 2011, being the last published audited accounts	Northumbrian Annual Report & Accounts 2011, Consolidated Cash Flow Statement on page 92. If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_AR11.pdf
24.2(a)(v)	Turnover, net profit or loss before and after taxation, the charge for tax, extraordinary items, minority interests, the amount absorbed by dividends and earnings and dividends per share for Northumbrian in respect of any interim statement or preliminary announcement made since the last published audited accounts	Northumbrian Interim Management Statement dated 28 July 2011 for the period 1 April 2011 to 27 July 2011. If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/newsItem.aspx?id=4393754
24.2(a)(vii)	Significant accounting policies, together with any points from the notes to the accounts which are of major relevance to an appreciation of the figures	Northumbrian Annual Report & Accounts 2011, the Notes to the Consolidated Financial Statements on pages 93 to 131. If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_AR11.pdf Northumbrian Annual Report & Financial Statements 2010, Notes to the Consolidated Financial Statements on pages 89 to 125. If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document. http://www.nwg.co.uk/NWG_2010.pdf

*City Code
Reference Information*

Source of Information

Northumbrian Annual Report & Financial Statements 2009, Notes to the Consolidated Financial Statements on pages 71 to 103.

If you are reading this document in hard copy, please enter the web address below in your web browser to be brought to the page containing the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the page containing the relevant document.

http://www.nwg.co.uk/NWG_AR_2009.pdf

PART 5

ADDITIONAL INFORMATION

1. RESPONSIBILITY

- (a) The Northumbrian Directors, whose names are set out in paragraph 2(a) of this Part 5 below, accept responsibility for the information contained in this document except for that information for which responsibility is taken by others pursuant to paragraphs (b), (c), (d) and (e) below. To the best of the knowledge and belief of the Northumbrian Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (b) The UK Water Directors, whose names are set out in paragraph 2(b) of this Part 5 below, accept responsibility for the information contained in this document relating to them, the other directors of UK Water, members of the immediate families and related trusts of the directors of UK Water, UK Water and its subsidiaries, parties acting in concert with UK Water for the purposes of the City Code (other than CKI, CKH and the Foundation and their subsidiaries), the financing of the Acquisition and UK Water's future plans for the Northumbrian Group, its management and employees. To the best of the knowledge and belief of the UK Water Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (c) The CKI Responsible Persons, whose names are set out in paragraph 2(c) of this Part 5 below, accept responsibility for the information contained in this document relating to them, the other directors of CKI, members of the immediate families and related trusts of the directors of CKI, CKI and its subsidiaries and parties acting in concert with CKI for the purposes of the City Code (other than UK Water, CKH and the Foundation and their subsidiaries). To the best of the knowledge and belief of the CKI Responsible Persons (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (d) The CKH Responsible Persons, whose names are set out in paragraph 2(d) of this Part 5 below, accept responsibility for the information contained in this document relating to them, the other directors of CKH, members of the immediate families and related trusts of the directors of CKH, CKH and its subsidiaries and parties acting in concert with CKH for the purposes of the City Code (other than UK Water, CKI and the Foundation and their subsidiaries). To the best of the knowledge and belief of the CKH Responsible Persons (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (e) The Foundation Responsible Persons, whose names are set out in paragraph 2(e) of this Part 5 below, accept responsibility for the information contained in this document relating to them, the other directors of the Foundation, members of the immediate families and related trusts of the directors of the Foundation, the Foundation and its subsidiaries and parties acting in concert with the Foundation for the purposes of the City Code (other than UK Water, CKI and CKH and their subsidiaries). To the best of the knowledge and belief of the Foundation Responsible Persons (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. DIRECTORS AND RESPONSIBLE PERSONS

- (a) The directors of Northumbrian and their positions in Northumbrian are as follows:

<i>Name</i>	<i>Position</i>
Sir Derek Wanless	Chairman
Heidi Mottram OBE	Chief Executive Officer
Christopher Michael Green	Finance Director
Sir Austen Patrick Brown	Senior Independent Non-executive Director
Margaret Fay CBE	Independent Non-executive Director
Dr Simon Lyster	Independent Non-executive Director
Martin Andre Bernard Nègre	Independent Non-executive Director
Paul Francis Rew	Independent Non-executive Director
Alexander John Scott-Barrett	Independent Non-executive Director

The registered office of Northumbrian and the business address of each of the directors of Northumbrian, other than Sir Austen Patrick Brown, is Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ. The business address of Sir Austen Patrick Brown is c/o the Go-Ahead Group plc, 6th Floor, 1 Warwick Row, London, SW1E 5ER.

- (b) The UK Water Directors and their positions in UK Water are as follows:

<i>Name</i>	<i>Position</i>
Kam Hing Lam	Director
Ip Tak Chuen, Edmond	Director
Andrew John Hunter	Director

The registered office of UK Water is 3 More London Riverside, London, SE1 2AQ and the business address of each of the UK Water Directors is 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

- (c) The CKI Responsible Persons and their positions in CKI are as follows:

<i>Name</i>	<i>Position</i>
Kam Hing Lam	Group Managing Director
Ip Tak Chuen, Edmond	Deputy Chairman
Andrew John Hunter	Deputy Managing Director

The registered office of CKI is Clarendon House, Church Street, Hamilton, HM11, Bermuda and the business address of each of the CKI Responsible Persons is 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

- (d) The CKH Responsible Persons and their positions in CKH are as follows:

<i>Name</i>	<i>Position</i>
Kam Hing Lam	Deputy Managing Director
Ip Tak Chuen, Edmond	Deputy Managing Director

The registered office of CKH and the business address of each of the CKH Responsible Persons is 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

- (e) The Foundation Responsible Persons and their positions in the Foundation are as follows:

<i>Name</i>	<i>Position</i>
Pau Yee Wan, Ezra	Director, Investment Committee Member
George Colin Magnus	Director, Investment Committee Member

The registered office of the Foundation is 8th Floor, Kailey Tower, 16 Stanley Street, Central, Hong Kong and the business address of each of the Foundation Responsible Persons is c/o 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

3. MARKET QUOTATIONS

Set out below are the Closing Prices of Northumbrian Shares on:

- (i) the first Business Day in each of the six months immediately before the date of this document;
- (ii) 24 June 2011 (the last Business Day before the commencement of the Offer Period); and
- (iii) 25 August 2011 (the latest practicable date before the publication of this document).

<i>Date</i>	<i>Northumbrian Share Closing Price (pence)</i>
1 March 2011	323.5
1 April 2011	338.4
3 May 2011	351.7
1 June 2011	358.9
24 June 2011	383.0
1 July 2011	422.0
1 August 2011	449.4
25 August 2011	459.1

4. INTERESTS AND DEALINGS

For the purposes of this paragraph 4:

“**acting in concert**” with a party means any such person acting or deemed to be acting in concert with that party for the purposes of the City Code and/or the Acquisition;

“**arrangement**” includes indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature relating to relevant securities which may be an inducement to deal or refrain from dealing;

“**connected advisers**” includes an organisation which: (i) is advising UK Water or (as the case may be) Northumbrian in relation to the Acquisition; (ii) is corporate broker to UK Water or (as the case may be) Northumbrian; (iii) is advising a person acting in concert with UK Water or (as the case may be) Northumbrian in relation to the Acquisition or in relation to the matter which is the reason for that person being a member of the concert party; or (iv) is advising a relevant company in relation to the Acquisition;

“**dealing**” includes: (i) the acquisition or disposal of securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities, or of general control of securities; (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities; (iii) subscribing or agreeing to subscribe for securities; (iv) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights; (v) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities; (vi) entering into, terminating or varying the terms of any agreement to purchase or sell securities; and (vii) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position;

“**derivative**” includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;

a “**director**” includes persons in accordance with whose instructions the directors or a director are accustomed to act;

“**disclosure period**” means the period commencing on 27 June 2010 (the date twelve months prior to the commencement of the Offer Period) and ending on 25 August 2011 (the latest practicable date before the publication of this document);

an “**exempt principal trader**” or “**exempt fund manager**” are to those terms as defined in the City Code; a person has an “**interest**” or is “**interested**” in securities if he has a long economic exposure, whether absolute or conditional, to changes in the price of those securities and in particular covers: (i) legal title and beneficial ownership (i.e. the ability to exercise, or control the exercise of, voting rights); (ii) the right, option or obligation to acquire, call for or take delivery of securities under an option or derivative; and (iii) the situation where a person holds a derivative referenced to, or which may result in, a long position in securities;

“**Northumbrian companies**” includes members of the Northumbrian Group (excluding Northumbrian), Northumbrian’s parent companies (if any), any of their associated companies and any companies of which such companies are associated companies and “**Northumbrian company**” is any one such company;

“**persons connected**” means any persons whose interests a director is taken to be interested in pursuant to Part 22 of the Companies Act;

“**relevant securities**” includes (i) Northumbrian Shares and any other securities of Northumbrian conferring voting rights; (ii) equity share capital of Northumbrian or, as the context requires, UK Water; or (iii) securities of Northumbrian carrying conversion or subscription rights into any of the foregoing; and

ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of “**associated company**” status and “**control**” means an interest, or interests, in shares carrying in aggregate 30 per cent. or more of the voting rights attributable to the capital of a company which are currently exercisable at a general meeting, irrespective of whether such interest or interests give *de facto* control.

(a) **Interests of Northumbrian Directors in relevant securities of Northumbrian**

As at the last day of the disclosure period (being the latest practicable date before publication of this document), the interests, rights to subscribe and short positions in respect of relevant securities of Northumbrian held by the Northumbrian Directors and members of their immediate families and related trusts and companies, all of which are beneficial unless otherwise stated, were as follows:

<i>Name</i>	<i>Number of Northumbrian Shares</i>	<i>Percentage of issued share capital of Northumbrian</i>
Sir Derek Wanless	65,000	0.0125
Heidi Mottram	606 ¹	0.0001
Chris Green	206,370 ²	0.0398
Sir Patrick Brown	43,000 ³	0.0083
Martin Nègre	20,000	0.0039
Alex Scott-Barrett	20,000	0.0039
Total	354,976	0.0684

Notes:

1. 606 of Heidi Mottram’s Northumbrian Shares are held by the trustee under the SIP.
2. 194,434 Northumbrian Shares are beneficially held by Chris Green’s spouse and immediate family. 6,936 Northumbrian Shares are held by the trustee under the SIP. Chris Green is the legal and beneficial holder of 5,000 Northumbrian Shares.
3. All 43,000 Northumbrian Shares are held by Sir Patrick Brown’s spouse.

LTIP Awards

<i>Name</i>	<i>Maximum Number of Northumbrian Shares under award</i>	<i>Date of grant</i>	<i>Exercise price per Northumbrian Share (pence)</i>	<i>Exercise Period</i>
Heidi Mottram	96,212	08.12.2010	0.00	
Chris Green	78,650	15.12.2008	0.00	15.12.2011 to 15.06.2012
Chris Green	83,240	04.01.2010	0.00	04.01.2013 to 04.07.2013
Chris Green	68,551	08.12.2010	0.00	08.12.2013 to 08.06.2014

(b) **Dealings by Northumbrian Directors in relevant securities of Northumbrian**

Dealings in relevant securities of Northumbrian (excluding the exercise of options) during the disclosure period by the Northumbrian Directors and any persons connected with the Northumbrian Directors were as follows:

<i>Name</i>	<i>Date</i>	<i>Price per Northumbrian Share (pence)</i>	<i>Nature of Dealing</i>	<i>Number of Northumbrian Shares</i>
Chris Green	15.8.2011	0.00	acquisition	5,000
Chris Green	3.5.2011	355.0	acquisition	564
Heidi Mottram	1.12.2010	329.5	acquisition	606
Martin Nègre	15.9.2010	351.0	disposal	50,000

(c) **Interests and dealings of Northumbrian companies, pension funds of Northumbrian and employee benefit trusts of Northumbrian in relevant securities of Northumbrian**

As at the last day of the disclosure period (being the latest practicable date before publication of this document), the interests, rights to subscribe and short positions in respect of relevant securities of Northumbrian held by: (a) Northumbrian companies; (b) pension funds of Northumbrian or any Northumbrian company; and (c) employee benefit trusts of Northumbrian or any Northumbrian company were as follows:

<i>Name</i>	<i>Number of Northumbrian Shares</i>
Northumbrian Water Share Scheme Trustees Limited	754,144

(d) **Interests and dealings of advisors connected to Northumbrian in relevant securities of Northumbrian**

As at 24 August 2011 (being the latest practicable date before publication of this document), the interests, rights to subscribe and short positions in respect of relevant securities of Northumbrian held by: (a) connected advisers to Northumbrian, Northumbrian companies and persons acting in concert with Northumbrian; and (b) persons controlling, controlled by or under the same control as any such connected advisers (excluding exempt principal traders and exempt fund managers) were as follows:

<i>Name</i>	<i>Number of Northumbrian Shares</i>	<i>Percentage of issued share capital of Northumbrian</i>
RREEF Americas LLC	13,703,743	2.64
Oppenheim Kapitalanlage-Gesellschaft (OKAG) mbH	392,960	0.08
Oppenheim Asset Management Services s.à.r.l	60,000	0.01
Deutsche Bank AG, London Branch	553	0.00

The following dealings in relevant securities of Northumbrian by: (a) connected advisers to Northumbrian, Northumbrian companies and persons acting in concert with Northumbrian; and (b) persons controlling, controlled by or under the same control as any such connected advisers (excluding exempt principal traders and exempt fund managers) have taken place between the dates of 27 June 2011 (being the commencement of the offer period) and 24 August 2011 (being the last practicable date prior to publication of this document):

<i>Name</i>	<i>Date</i>	<i>Price per Northumbrian Share (pence)</i>	<i>Nature of Dealing</i>	<i>Number of Northumbrian Shares</i>
RREEF Americas LLC	27.07.11	453.91	Disposal	442,800

(e) **Dealings by UK Water and person acting in concert with it in relevant securities of Northumbrian**

As at the last day of the disclosure period (being the latest practicable date before publication of this document), the following dealings in relevant securities of Northumbrian by UK Water, the UK Water Directors, their immediate families and related trusts and companies, persons acting in concert with UK Water (excluding exempt traders and exempt fund managers), and persons with whom UK Water or any person acting in concert with UK Water has any arrangement, have taken place during the disclosure period:

<i>Name</i>	<i>Date</i>	<i>Price per Northumbrian Share (pence)</i>	<i>Nature of Dealing</i>	<i>Number of Northumbrian Shares</i>
BNY Brussels – Trust AC CLTS ¹	17.02.2011	317.1	acquisition	5,000
BNY Brussels – Trust AC CLTS	27.04.2011	342.6	disposal	5,000

(f) **Persons acting in concert with Northumbrian**

In addition to the Northumbrian Directors, Northumbrian's related companies, their directors and related pension funds, the only other persons who are (or are deemed to be) acting in concert with Northumbrian for the purposes of the Acquisition are Deutsche Bank, the financial adviser and corporate broker to Northumbrian.

(g) **Persons acting in concert with UK Water**

In addition to the UK Water Directors and the members of the Wider UK Water Group, the only other persons who are (or are deemed to be) acting in concert with UK Water for the purposes of the Acquisition are RBC and HSBC, the financial advisers and corporate brokers to UK Water.

(h) **General**

- (i) Save as disclosed above and in paragraph 6 of this Part 5, none of UK Water, any of the UK Water Directors, any members of such directors' immediate families or any related trusts or companies, nor any person connected with the UK Water Directors, nor any person deemed to be acting in concert with UK Water, or any person with whom UK Water or any person deemed to be acting in concert with UK Water has an arrangement, was interested, had any rights to subscribe or had any short positions in respect of any relevant securities on 25 August 2011 (being the latest practicable date before publication of this document) nor has any such person dealt in any relevant securities during the disclosure period.
- (ii) Save as disclosed above, none of Northumbrian, any Northumbrian Directors, any members of such directors' immediate families or any related trusts or companies, nor any person connected with the Northumbrian Directors, nor any person with whom Northumbrian was acting in concert or Northumbrian was deemed to be acting in concert with has an arrangement, was interested, had any rights to subscribe or had any short positions in respect of any relevant

¹ HSBC International Trustee Limited (Singapore Branch) has discretionary powers over the investments made by BNY Brussels – Trust AC CLTS.

securities on 25 August 2011 (being the latest practicable date before publication of this document), nor has any such person dealt in any relevant securities during the disclosure period.

- (iii) Save as disclosed above, neither UK Water nor any person acting in concert with UK Water has borrowed or lent any relevant securities of Northumbrian during the disclosure period, save for any borrowed shares which have either been on lent or sold.
- (iv) Save as disclosed above, neither Northumbrian nor any person acting in concert with Northumbrian has borrowed or lent any relevant securities of Northumbrian during the disclosure period, save for any borrowed shares which have either been on lent or sold.
- (v) Save as disclosed above, neither UK Water, nor Northumbrian, nor any person acting in concert or deemed to be acting in concert with UK Water or Northumbrian has any arrangements in relation to any relevant securities.

5. BASES OF CALCULATION AND SOURCES OF INFORMATION

The value attributed to the entire issued share capital of Northumbrian is based upon: (i) the number of Northumbrian Shares in issue as at close of business on 25 August 2011 (being the latest practicable date before publication of this document) being 518,623,845; and (ii) no additional Northumbrian Shares becoming issuable on the exercise of any share options and awards under the Northumbrian Share Plans.

All prices for Northumbrian Shares have been sourced from Datastream, derived from the Daily Official List and represent the Closing Price on the relevant date.

Unless otherwise stated, the financial information relating to Northumbrian has been extracted or provided (without material adjustment) from Northumbrian's audited annual report and accounts for the year ended 31 March 2011, and, where relevant, prior years.

References to total shareholder returns have been calculated with reference to the aggregate increase in the value of Northumbrian Shares, together with aggregate dividends and other distributions made by the Company to its shareholders over the period, assuming that the Scheme becomes Effective.

The information on current trading has been extracted from the Interim Management Statement issued by Northumbrian on 28 July 2011.

6. IRREVOCABLE COMMITMENTS

As at the close of business on 25 August 2011 (the latest practicable date before the date of this document) UK Water and any persons acting in concert with UK Water or deemed to be acting in concert with UK Water had procured the irrevocable commitments and letters of intent in relation to Northumbrian Shares to vote in favour of the resolution relating to the Scheme at the Court Meeting and the Resolution at the General Meeting (or, if applicable, to accept the Takeover Offer) set out in this paragraph 6.

Ontario Teachers' Pension Plan Board has given an irrevocable undertaking: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water. Ontario Teachers' Pension Plan Board has an interest in 138,776,864 Northumbrian Shares, representing approximately 26.8 per cent. of the existing issued share capital of Northumbrian. It has also undertaken to UK Water not to bid, or participate in any bid, for Northumbrian.

The undertakings given by Ontario Teachers' Pension Plan Board shall lapse, *inter alia*, if:

- (a) UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time;
- (b) the Scheme or Takeover Offer terminates or is withdrawn (or, in the case of the Scheme, the Scheme otherwise becomes incapable of ever becoming Effective) and no new, revised or replacement Scheme

or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time; or

- (c) a third party not acting in concert (as such item is defined in the City Code) with UK Water announces a firm intention to make an offer for Northumbrian, whether by offer or scheme of arrangement, at a price equal to or exceeding 488.25 pence per Northumbrian Share.

The following Northumbrian Directors have given irrevocable undertakings: (i) to vote in favour of the Scheme and the resolutions to be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water:

<i>Name</i>	<i>Number of Northumbrian Shares¹</i>	<i>Percentage of issued share capital of Northumbrian</i>
Sir Derek Wanless	65,000	0.0125
Heidi Mottram	606	0.0001
Chris Green	206,370	0.0398
Sir Patrick Brown	43,000	0.0083
Martin Nègre	20,000	0.0039
Alex Scott-Barrett	20,000	0.0039
Total	354,976	0.0684

1 This number includes the number of Northumbrian Shares held by family members of the relevant director to which the irrevocable also relates.

These undertakings shall only lapse if:

- (a) UK Water announces that it does not intend to proceed with the Scheme or make the Takeover Offer (as applicable) and no new, revised or replacement Scheme or Takeover Offer is announced in accordance with Rule 2.5 of the City Code at the same time; or
- (b) the Scheme or Takeover Offer lapses or is withdrawn and no new, revised or replacement Scheme or Takeover Offer has been announced, in accordance with Rule 2.5 of the City Code, in its place or is announced, in accordance with Rule 2.5 of the City Code, at the same time.

UK Water has received non-binding letters of intent from the shareholders below confirming their intention to vote in favour of the Scheme and the resolutions to: (i) be proposed at the Court Meeting and the General Meeting; and (ii) if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by UK Water, in respect of the number of Northumbrian Shares set out opposite their name below:

<i>Name</i>	<i>Number of Northumbrian Shares</i>	<i>Percentage of issued share capital of Northumbrian</i>
JP Morgan Asset Management	19,891,674	3.8
Artemis Investment Management LLP	15,082,281	2.9
Total	34,973,955	6.7

Artemis Investment Management LLP has subsequently sold 12,186,048 of its Northumbrian Shares, meaning its non-binding letter of intent now applies to 2,896,233 Northumbrian Shares, representing approximately 0.6 per cent. of Northumbrian's existing issued share capital.

These letters of intent do not state any circumstances in which they will lapse.

7. NORTHUMBRIAN MATERIAL CONTRACTS

Save as disclosed below, there have been no contracts entered into by Northumbrian or any of its subsidiaries during the period commencing on 27 June 2009 (the date two years before the commencement of the Offer Period) and ending on 25 August 2011 (the latest practicable date before the date of this document) which are outside the ordinary course of business and which are or may be considered material:

(a) **Note Purchase Agreement**

On 14 April 2011, pursuant to a note purchase agreement (the “**Note Purchase Agreement**”), Northumbrian entered into a US private placement with The Prudential Insurance Company of America and Aviva Annuity UK Limited (the “**Note-Holders**”) for the issue and sale of £100,000,000 5.82 per cent. senior notes due 14 April 2021 (the “**Notes**”). The proceeds of the sale of the Notes have been applied for the refinancing of existing financial indebtedness.

Northumbrian may prepay the Notes (in an amount not less than 5 per cent. of the aggregate principal amount of the Notes then outstanding) in part or in full at any time, provided it gives a minimum of 30 and maximum of 60 days’ written notice, and pays a make-whole amount in order to compensate the Note-Holders for the loss of interest that would be paid over the life of the Notes. All payments under the agreement are to be made on a grossed-up basis.

On a change of control, Northumbrian is obliged to give written notice to all Note-Holders and offer to prepay the entire unpaid principal amount of notes held by each Note-Holder at par, with interest but without a make-whole amount. This prepayment is to be made on a Business Day nominated by Northumbrian being no less than 30 and no more than 60 days after the notice is given. Each Note-Holder is then requested to notify its acceptance or rejection of the offer within 25 days of the date of the written notice, a failure by a Note-Holder to respond within this period will be deemed to constitute a rejection of the offer to prepay.

A number of Northumbrian’s subsidiaries are guarantors to the Note Purchase Agreement, and Northumbrian may at its discretion and upon written notice add further subsidiaries as guarantors.

The Note Purchase Agreement contains customary covenants, warranties, representations and events of default.

(b) **Break Fee Letter**

Northumbrian and UK Water have entered into the Break Fee Letter, pursuant to which Northumbrian has agreed to pay to UK Water a break fee of approximately £24.1 million (equal to approximately one per cent. of Northumbrian’s market capitalisation based on the offer price of 465 pence per Northumbrian Share) (the “**Break Fee**”) if, after the date of the Announcement but prior to the Acquisition lapsing or being withdrawn, a Competing Proposal or possible Competing Proposal is announced by Northumbrian or any other person (whether or not on a pre-conditional basis and whether pursuant to Rule 2.4 or Rule 2.5 of the City Code, or otherwise) and that Competing Proposal or possible Competing Proposal, or any other Competing Proposal that is announced (whether or not on a pre-conditional basis and whether pursuant to Rule 2.4 of the City Code, Rule 2.5 of the City Code or otherwise) prior to the Acquisition lapsing or being withdrawn, subsequently becomes effective, becomes or is declared unconditional in all respects or is otherwise completed.

If the Break Fee becomes payable, Northumbrian shall pay the Break Fee by not later than five Business Days after the date on which the relevant Competing Proposal becomes effective, becomes or is declared unconditional in all respects or is otherwise completed.

8. SERVICE CONTRACTS AND REMUNERATION

Save as disclosed below, there are no service contracts in force between any Northumbrian Director or proposed director of Northumbrian and Northumbrian or any of its subsidiaries and no such contract has been entered into or amended during the six months preceding the date of this document.

(a) **Executive directors**

Each of the Northumbrian Executive Directors has a service agreement with Northumbrian, the principal features of which are as follows:

<i>Executive Directors</i>	<i>Initial appointment</i>	<i>Contract start date</i>	<i>Notice period by either party</i>	<i>Basic annual salary for year ended 2011 (£000)</i>	<i>Basic annual salary for year ended 2012 (£000)</i>	<i>Total emoluments for year ended 2011 (£000)</i>
Heidi Mottram	1.3.2010	1.3.2010	12 months	320	332	526
Chris Green	23.5.2003	23.5.2003	12 months	228	236	379

The Northumbrian Executive Directors have service contracts which can be terminated by either party on 12 months' prior written notice. No special arrangements apply if there is a change of control. The contracts do not contain any liquidated damages clauses or provide explicitly for termination payments. The service contracts of the Northumbrian Executive Directors do not contain provisions relating to compensation for termination, save that following the giving of notice by either Northumbrian or the Northumbrian Executive Director, Northumbrian may elect to make a payment in lieu of notice representing the salary (but not benefits) in lieu of any unexpired notice Northumbrian is required to give. In the event of termination by Northumbrian, the Remuneration Committee of the Northumbrian Board (the "**Remuneration Committee**") would make recommendations to the Northumbrian Board on what payments, if any, should be made to the director, depending on the circumstances of the termination, taking into account the UK Corporate Governance Code which discourages payment for failure. Northumbrian would also expect directors to seek to mitigate their loss. There is no automatic entitlement to bonus payments and LTIP vesting is at the discretion of the Remuneration Committee.

The remuneration of the Northumbrian Executive Directors comprises: (i) basic salary; (ii) benefits (including pension and participation in the SIP); (iii) a performance related annual bonus; and (iv) annual LTIP awards.

(i) *Basic salary*

The basic salary of the Northumbrian Executive Directors set out in the table above is reviewed annually based on individual contributions and internal relativities. For the year ending 31 March 2012, salaries for executive directors have been increased by 3.71 per cent.

(ii) *Benefits and pensions*

Benefits provided to the Northumbrian Executive Directors comprise membership of pension schemes, car allowance, healthcare and the opportunity to participate in the SIP. The number of shares held in the SIP on behalf of the Northumbrian Executive Directors is detailed in the notes to the table in paragraph 4(a) of this Part 5.

Basic salary is the only pensionable element of the Northumbrian Executive Directors' remuneration packages. The Northumbrian 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. In 2010/11, Heidi Mottram received an employer's contribution of 8 per cent. of salary to the defined contribution section of the Northumbrian Water pension scheme and made an employee contribution of 5 per cent. Following consultation with Northumbrian's largest shareholders and major representative bodies, the employer contributions on behalf of executive members of the defined contribution scheme have been increased from 8 per cent. to 15 per cent. of salary, with employee contributions increased from 5 per cent. to 8 per cent., from 1 April 2011. Heidi Mottram is the only Northumbrian Executive Director in the defined contribution scheme.

Chris Green is an active member of the Northumbrian defined benefit scheme. As at 31 March 2011, the pension benefits accrued by Chris Green were as follows:

	<i>Amount (£000)</i>
Accrued pension at 31.3.2010	104.3
Accrued pension at 31.3.2011	110.7
Increase in accrued pension from 31.3.2010 to 31.3.2011	6.4
Increase in accrued pension net of inflation from 31.3.2010 to 31.3.2011	0.9
Transfer value of net increase in accrued pension less directors' contributions	18.9
Transfer value of accrued pension at 1.4.2010	2,111.4
Transfer value of accrued pension at 31.3.2011	2,281.3
Total change in transfer value less directors' contributions from 1.4.2010 to 31.3.2011	169.9

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 Chris Green 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 Northumbrian and Northumbrian Directors, such as changes in stock market conditions.
4. The transfer values were calculated in line with the relevant legislation and using actuarial assumptions agreed by the Trustee.

(iii) *Bonus*

The maximum annual bonus potential for the executive directors for 2010/11 was 70 per cent. of salary. The maximum annual bonus potential for the executive directors in 2011/12 has been increased from 70 per cent. to 100 per cent. of salary.

Following the increase in bonus potential, Northumbrian has introduced bonus deferral for executive directors. Of the total bonus awarded, 70 per cent. will be payable in cash and 30 per cent. will be payable in shares, deferred for three years.

As part of the changes introduced for 2011/12, the Remuneration Committee has introduced a clawback provision which will apply in the event that results on which bonuses are paid, or awards are made under the LTIP, are subsequently found to be inaccurate or there has been relevant misconduct on the part of the employee.

(iv) *LTIP*

Under the LTIP, executive directors may receive, at the discretion of the Remuneration Committee, annual conditional awards of shares in Northumbrian worth up to 100 per cent. of annual salary at grant. All awards have three year pre-vesting performance conditions.

(b) **Non-executive directors**

All non-executive directors are appointed for a term of 12 months with a six month notice period for both Northumbrian and the director. No special arrangements apply if there is a change of control. The contracts do not contain any liquidated damages clauses or provide explicitly for termination payments. If a contract is to be terminated, the Remuneration Committee will determine the compensation to be paid. Details of the contracts of the non-executive directors are shown in the table below.

<i>Non-executive Directors</i>	<i>Initial appointment</i>	<i>Contract start date</i>	<i>Unexpired term¹</i>	<i>Notice period by either party</i>	<i>Current contract end date</i>	<i>Total emoluments for the year ended</i>	<i>Total emoluments for the year ending</i>
						<i>31.3.2011</i>	<i>31.3.2012²</i>
						<i>£000</i>	<i>£000</i>
Sir Derek Wanless	1.12.2003	1.12.2010	3 months	6 months	30.11.2011	160	165
Sir Patrick Brown	12.5.2003	12.5.2011	9 months	6 months	11.5.2012	48	42 ⁴
Margaret Fay	1.6.2010	1.6.2011	9 months	6 months	31.5.2012	31 ³	39
Martin Nègre	12.5.2003	12.5.2011	9 months	6 months	11.5.2012	37	39
Alex Scott-Barrett	26.9.2006	26.9.2010	1 month	6 months	25.9.2011	43	44
Paul Rew	1.10.2010	1.10.2010	1 month	6 months	30.9.2011	19 ³	46 ⁴
Simon Lyster	1.04.2011	1.4.2011	7 months	6 months	31.3.2012	–	39

Notes:

1. Calculated as at 25 August 2011 and rounded to nearest whole month.
2. Contracts do not provide for compensation for loss of office in excess of fees accrued.
3. Figures are pro-rata for the time served during the year.
4. Paul Rew replaced Sir Patrick Brown as Chairman of the Audit Committee on 28 July 2011 and the figures reflect their respective *pro rata* entitlement to the yearly fee payable to the holder of such position.

The terms of appointment set out the expected time commitment for each non-executive director.

Northumbrian'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. 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 Northumbrian. For the year ending 31 March 2012, fees for non-executive directors have been increased by 3.71 per cent.

(c) Indemnification of directors

Northumbrian has in place directors' and officers' insurance and, on 28 November 2005, entered into a deed of indemnity to grant the directors further protection against liability to third parties, subject to the conditions set out in the Companies Act. Such qualifying third party indemnity provision remains in force as at the date of this document.

9. OTHER INFORMATION

- (a) Except as disclosed in this document, no agreement, arrangement or understanding (including any compensation arrangement) exists between UK Water or any person acting in concert with UK Water and any of the directors, recent directors, shareholders or recent shareholders of Northumbrian or any person interested or recently interested in shares of Northumbrian having any connection with or dependence on the Acquisition.
- (b) Except as disclosed in this document, no agreement, arrangement or understanding of whatever nature whether formal or informal (including indemnity or option arrangements) relating to relevant securities which may be an inducement to deal or refrain from dealing exists between Northumbrian or any person acting in concert with Northumbrian and any other person.
- (c) Except as disclosed in this document, there is no agreement, arrangement or understanding by which any securities acquired in pursuance of the Acquisition will be transferred to any other person, but UK Water reserves the right to transfer any such securities to any member of the Wider UK Water Group.
- (d) Deutsche Bank has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- (e) RBC has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

- (f) HSBC has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- (g) Except as disclosed in this document, there has been no material change in the financial or trading position of Northumbrian since 31 March 2011 (the date to which the latest audited accounts of Northumbrian were prepared).
- (h) Save as disclosed in this document, the Northumbrian Directors are not aware of any material change in relation to any material information published by or on behalf of Northumbrian since the commencement of the Offer Period.
- (i) At the date of this document, Northumbrian does not hold any Northumbrian Shares in treasury.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at www.nwg.co.uk and during normal business hours on any Business Day at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London, EC1A 2FG until the end of the Offer Period:

- (a) this document and the Forms of Proxy;
- (b) the Articles of Association of UK Water;
- (c) the Articles of Association of Northumbrian;
- (d) the published audited consolidated accounts of Northumbrian for the two financial years ended 31 March 2010 and 31 March 2011;
- (e) the service contracts and terms and conditions of appointment referred to in paragraph 8 of this Part 5;
- (f) the irrevocable commitments to vote in favour of the Scheme (or, if applicable, to accept the Takeover Offer) referred to in paragraph 6 of this Part 5;
- (g) letters of intent from JP Morgan Asset Management and Artemis Investment Management LLP referred to in paragraph 6 above;
- (h) the material contract referred to in paragraph 7(b) of this Part 5; and
- (i) the written consents referred to in paragraph 9 of this Part 5.

Dated: 26 August 2011

PART 6

DEFINITIONS

The following definitions apply throughout this document, other than in the Scheme set out in (i) Part 7 of this document and (ii) in the notices of the Northumbrian Shareholder Meetings set out in Parts 8 and 9 of this document, unless the context requires otherwise:

“Acquisition”	the direct or indirect acquisition of the entire issued share capital of Northumbrian by UK Water (other than Northumbrian Shares already held by UK Water (if any)), to be effected by way of: (i) the Scheme; or (ii) the Takeover Offer (as the case may be);
“Announcement”	the joint announcement made by Northumbrian and UK Water on 2 August 2011 pursuant to Rule 2.5 of the City Code that they had agreed the terms of the Acquisition;
“Authorisations”	approvals, authorisations, orders, grants, determinations, recognitions, confirmations, consents, licences, clearances, waivers, certificates, provisions and permissions;
“Barclays Capital”	Barclays Bank plc;
“Board of UK Water”	the board of directors of UK Water;
“Break Fee Letter”	the agreement between Northumbrian and UK Water relating to the break fee, a summary of which is set out at paragraph 7 of Part 5 of this document;
“Business Day”	a day (other than a Saturday or Sunday or public holiday) on which banks in the City of London are generally open for business;
“Cambridge Water”	Cambridge Water plc;
“Carbon Reduction Commitment”	the Carbon Reduction Commitment Energy Efficiency Scheme which came into force on 1 April 2011;
“certificated” or “in certificated form”	a share or other security which is not in uncertificated form (that is, not in CREST);
“Chairman”	the Chairman of Northumbrian, being Sir Derek Wanless or as appointed by the Court in accordance with the Notice of the Court Meeting;
“City Code”	the City Code on Takeovers and Mergers, as amended from time to time;
“CKH”	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong, the ordinary shares of which are listed on The Stock Exchange of Hong Kong Limited;
“CKH Responsible Persons”	the persons whose names are set out in paragraph 2(d) of Part 5 of this document;
“CKI”	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda, the ordinary shares of which are listed on The Stock Exchange of Hong Kong Limited;
“CKI Responsible Persons”	the persons whose names are set out in paragraph 2(c) of Part 5 of this document;

“Closing Price”	the closing middle market price of a Northumbrian Share as derived from the Daily Official List;
“Companies Act”	the Companies Act 2006 (as amended, modified, consolidated, re-enacted or replaced from time to time);
“Competing Proposal”	any offer, scheme of arrangement, merger or business combination, or similar transaction, which is announced or entered into, or is proposed, by a third party which is not acting in concert (as defined in the City Code) with UK Water, including any revisions thereof, and the purpose of which is, or would be, to enable that third party (or any other person) to acquire, directly or indirectly, all or a significant proportion (being 30 per cent. or more when aggregated with the shares already held by the third party and any person acting in concert (as defined in the City Code) with that third party) of the share capital of Northumbrian, or all or a significant proportion (being 30 per cent. or more) of its undertaking, assets or business, or any other arrangement or transaction or series of the same which is inconsistent with the implementation of the Acquisition;
“Conditions”	the conditions to the implementation of the Acquisition set out in Part 3 of this document and “Condition” means any one or more of them as the context may require;
“Consortium”	CKI, CKH and the Foundation;
“Consortium Member”	any one of CKI, CKH and the Foundation;
“Court”	the High Court of Justice in England and Wales;
“Court Hearings”	the Scheme Court Hearing and the Reduction Court Hearing and “Court Hearing” means any one of them;
“Court Meeting”	the meeting or meetings of Scheme Shareholders to be convened by order of the Court pursuant to Part 26 of the Companies Act to approve the Scheme (with or without amendment) including any adjournment or postponement of any such meeting;
“Court Orders”	the Scheme Court Order and the Reduction Court Order;
“CREST”	the relevant system (as defined in the Regulations) in respect of which Euroclear is the Operator (as defined in the Regulations);
“Datastream”	the financial statistical database provided by Thomson Reuters;
“Daily Official List”	the daily official list of the London Stock Exchange;
“Deutsche Bank”	Deutsche Bank AG, London Branch;
“Disclosed”	referred to in Northumbrian’s annual report and accounts for the financial year ended on 31 March 2011, publicly announced by Northumbrian prior to 2 August 2011, the date of the Announcement (by delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed in writing to UK Water prior to 2 August 2011, the date of the Announcement, by or on behalf of Northumbrian in the course of negotiations;
“Effective”	in the context of the Acquisition: (i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Acquisition is

	implemented by way of the Takeover Offer, the Takeover Offer having been declared or having become unconditional in all respects in accordance with the requirements of the City Code;
“Effective Date”	the date on which the Acquisition becomes Effective;
“Euroclear”	Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited);
“Excluded Shares”	(i) any Northumbrian Shares held by UK Water; and (ii) any other Northumbrian Shares which Northumbrian and UK Water agree prior to the Scheme Court Hearing will not be subject to the Scheme;
“Explanatory Statement”	the explanatory statement (in compliance with Part 26 of the Companies Act) relating to the Scheme, as set out in Part 2 of this document;
“Forms of Proxy”	the BLUE form of proxy for use at the Court Meeting, the WHITE form of proxy for use at the General Meeting, both of which accompany this document, and which may be completed and submitted online through the website of Northumbrian’s Registrars, Capita Registrars Limited at www.capitashareportal.com for either meeting, and a “Form of Proxy” means either of the above as the context requires;
“Foundation”	Li Ka Shing Foundation Limited, a company limited by guarantee and incorporated in Hong Kong;
“Foundation Responsible Persons”	the persons whose names are set out in paragraph 2(e) of Part 5 of this document;
“FSA”	the Financial Services Authority;
“FSMA”	the Financial Services and Markets Act 2000 (as amended);
“General Meeting”	the general meeting of Northumbrian Shareholders to be convened in connection with the Scheme to consider and, if thought fit, approve certain resolutions in relation to the Scheme and the Acquisition (with or without amendment) and any adjournment thereof;
“HSBC”	HSBC Bank plc;
“in uncertificated form”	in relation to a share or other security, a share or other security which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST;
“Instrument of Appointment”	the instrument of appointment by the Secretary of State for the Environment of Northumbrian Water Limited as a water and sewerage undertaker under sections 11 and 14 of the Water Act 1989 (now sections 6,7,11 and 12 of the Water Industry Act 1991), issued by the Department of the Environment in August 1989;
“IPO”	initial public offering;

“K Factor”	the regulated revenue of Northumbrian is set by reference to the rate of inflation, measured by the Retail Price Index, as well as an adjustment factor referred to as the K factor. Ofwat limits the annual price increase, or K factor, for each water company to reflect what it needs to charge to finance the provision of services to customers. The K factor tells Northumbrian the percentage by which, in real terms, it may increase its prices in each of the five years covered by the most recent price determination from Ofwat;
“Listing Rules”	the listing rules of the UK Listing Authority (as amended from time to time);
“London Stock Exchange”	London Stock Exchange plc;
“LTIP”	the Northumbrian Long-Term Incentive Plan 2003, as amended;
“Northumbrian” or the “Company”	Northumbrian Water Group plc, a public limited company incorporated in England and Wales with registered number 04760441;
“Northumbrian Board”	the board of directors of Northumbrian;
“Northumbrian Directors”	the directors of Northumbrian;
“Northumbrian EBT”	the Northumbrian Water Group plc Employee Trust;
“Northumbrian Executive Directors”	Heidi Mottram OBE and Chris Green;
“Northumbrian Group”	Northumbrian and its subsidiaries and subsidiary undertakings;
“Northumbrian’s Registrars”	Capita Registrars Limited;
“Northumbrian Shareholder Meetings”	the Court Meeting and the General Meeting;
“Northumbrian Shareholders”	registered holders of Northumbrian Shares from time to time;
“Northumbrian Share Plans”	the LTIP and the SIP;
“Northumbrian Shares”	ordinary shares of 10 pence each in the capital of Northumbrian;
“Northumbrian Water Limited”	Northumbrian Water Limited, a company incorporated in England and Wales with registered number 02366703;
“Offer Period”	the period commencing on 27 June 2011 with the announcement made by CKI that it was assessing a potential cash offer for Northumbrian and ending on the Effective Date, the day the Scheme lapses or the day the Scheme is withdrawn, whichever occurs first;
“Official List”	the Official List of the UK Listing Authority;
“Overseas Shareholders”	Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom;
“Panel”	the Panel on Takeovers and Mergers;
“Persons With Information Rights”	a person in respect of whom a nomination pursuant to the provisions of the Companies Act has been made (and has not been suspended, revoked or ceased to have effect) by a Northumbrian Shareholder for that person to receive a copy of all communications that Northumbrian sends to Northumbrian Shareholders generally or to

	any class of Northumbrian Shareholders including the Northumbrian Shareholder making the nomination;
“pounds”, “pence”, “sterling” and “£”	the lawful currency of the United Kingdom;
“RBC”	RBC Europe Limited;
“Reduction Court Hearing”	the hearing by the Court to confirm the Reduction of Capital;
“Reduction Court Order”	the order of the Court confirming the Reduction of Capital;
“Reduction of Capital”	the proposed reduction of the share capital of Northumbrian in connection with the Scheme under Chapter 10 of Part 17 of the Companies Act;
“Registrar of Companies”	the Registrar of Companies in England and Wales;
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);
“Regulatory Information Service”	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information from listed companies;
“Remuneration Committee”	has the meaning given to it in paragraph 8(a) of Part 5 of this document;
“Resolution”	the special resolution to be proposed at the General Meeting in connection with the Scheme;
“Scheme”	the scheme of arrangement proposed to be made under Part 26 of the Companies Act to effect the Acquisition between Northumbrian and the Scheme Shareholders, as set out in Part 7 of this document with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Northumbrian and UK Water;
“Scheme Court Hearing”	the hearing by the Court to sanction the Scheme under Section 899 of the Companies Act;
“Scheme Court Order”	the order of the Court sanctioning the Scheme under Section 899 of the Companies Act;
“Scheme Record Time”	the time and date specified as such in this document, expected to be 6.00 p.m. UK time on the Business Day immediately before the Reduction Court Hearing;
“Scheme Shareholders”	registered holders of Scheme Shares from time to time;
“Scheme Shares”	Northumbrian Shares: <ul style="list-style-type: none"> (i) in issue at the date of this document; (ii) (if any) issued after the date of this document but prior to the Voting Record Time; and (iii) (if any) issued on or after the Voting Record Time but before the Scheme Record Time in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme, in each case other than any Excluded Shares;
“SDRT”	United Kingdom stamp duty reserve tax;

“SIP”	the Northumbrian Share Incentive Plan 2003;
“Statement of Capital”	the statement of capital (approved by the Court) showing with respect to Northumbrian’s share capital, as altered by the Reduction Court Order, the information required by section 649 of the Companies Act;
“subsidiary”	has the meaning ascribed to it in Section 1159 of the Companies Act;
“subsidiary undertaking”	has the meaning ascribed to it in Section 1162 of the Companies Act;
“Substantial Interest”	a direct or indirect interest of more than 20 per cent. but less than 50 per cent. of the voting equity capital of an undertaking;
“Takeover Offer”	the offer to acquire the entire issued share capital of Northumbrian by UK Water by means of a takeover offer made pursuant to the City Code;
“Third Party”	any central bank, ministry, government, government department, governmental, quasi-governmental, supranational, statutory, regulatory or investigative body or authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including for the avoidance of doubt, the Panel, but excluding the shareholders of any member of the Wider UK Water Group;
“UK Listing Authority”	the Financial Services Authority, its successor from time to time, or any other body acting in its capacity as the competent authority for listing under the Financial Services and Markets Act 2000;
“UK Water”	UK Water (2011) Limited, a private limited company incorporated in England and Wales with registered number 07509453;
“UK Water Directors”	the persons whose names are set out in paragraph 2(b) of Part 5 of this document;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia;
“US Exchange Act”	the United States Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder;
“US Holders”	holders of Northumbrian Shares ordinarily resident in the United States or with a registered address in the United States, and any custodian, nominee or trustee holding Northumbrian Shares for persons in the United States or with a registered address in the United States;
“Voting Record Time”	6.00 p.m. on 15 September 2011, which is the date and time upon which entitlement to vote at the Northumbrian Shareholder Meetings will be determined, or if a Northumbrian Shareholder Meeting is adjourned, 6.00 p.m. on the second day before the date of such adjourned meeting;

“Wider Northumbrian Group”

Northumbrian and the subsidiaries and subsidiary undertakings of Northumbrian and associated undertakings (including any joint venture, partnership, firm or company) and any other undertakings in which Northumbrian and such undertakings (aggregating their interests) have a Substantial Interest; and

“Wider UK Water Group”

UK Water and its group undertakings, any Consortium Member and their respective subsidiaries, subsidiary undertakings and associated undertakings (including any joint venture, partnership, firm or company) and any other undertakings in which UK Water and such undertakings (aggregating their interests) have a Substantial Interest.

Unless otherwise stated, all times referred to in this document are references to UK time.

Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

PART 7

THE SCHEME OF ARRANGEMENT

IN THE HIGH COURT OF JUSTICE No. 7099 of 2011
CHANCERY DIVISION
COMPANIES COURT
IN THE MATTER OF NORTHUMBRIAN WATER GROUP PLC
and
IN THE MATTER OF THE COMPANIES ACT 2006

SCHEME OF ARRANGEMENT

(under Part 26 of the Companies Act 2006)
between
Northumbrian Water Group plc
and
the Scheme Shareholders
(as hereinafter defined)

PRELIMINARY

1. In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“ Business Day ”	a day (other than a Saturday or Sunday or public holiday) on which banks in the City of London are generally open for business;
“ certificated ”	not in uncertificated form (that is, not in CREST);
“ Companies Act ”	the Companies Act 2006 (as amended, modified, consolidated, re-enacted or replaced from time to time);
“ Court ”	the High Court of Justice in England and Wales;
“ Court Meeting ”	the meeting or meetings of Scheme Shareholders to be convened by order of the Court pursuant to Part 26 of the Companies Act to approve the Scheme (with or without amendment) including any adjournment or postponement of any such meeting;
“ CREST ”	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which Euroclear is the Operator (as defined in the Uncertificated Securities Regulations 2001);
“ Effective Date ”	the date on which the Scheme becomes effective in accordance with its terms;
“ Euroclear ”	Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited);
“ Excluded Shares ”	(i) any Northumbrian Shares held by UK Water; and (ii) any other Northumbrian Shares which Northumbrian and UK Water agree prior to the Scheme Court Hearing will not be subject to the Scheme;

“holder”	includes a person entitled by transmission;
in “uncertificated form”	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST;
“LTIP”	the Northumbrian Long-Term Incentive Plan 2003, as amended;
“New Northumbrian Shares”	the new ordinary shares of 10 pence each in the capital of Northumbrian to be allotted and issued pursuant to clause 1(a)(b) of this Scheme;
“Northumbrian” or the “Company”	Northumbrian Water Group plc, a public limited company incorporated in England and Wales with registered number 04760441;
“Northumbrian Shareholders”	registered holders of Northumbrian Shares from time to time;
“Northumbrian Share Plans”	the LTIP and the SIP;
“Northumbrian Shares”	ordinary shares of 10 pence each in the capital of Northumbrian;
“Persons With Information Rights”	a person in respect of whom a nomination pursuant to the provisions of the Companies Act has been made (and has not been suspended, revoked or ceased to have effect) by a Northumbrian Shareholder for that person to receive a copy of all communications that Northumbrian sends to Northumbrian Shareholders generally or to any class of Northumbrian Shareholders including the Northumbrian Shareholder making the nomination;
“Reduction Court Hearing”	the hearing by the Court of the claim form to confirm the Reduction of Capital under sections 641 and 648 of the Companies Act and to authorise the re-registration of Northumbrian as a private limited company under section 651 of the Companies Act;
“Reduction Court Order”	the order of the Court confirming the Reduction of Capital;
“Reduction of Capital”	the proposed reduction of the share capital of Northumbrian in connection with the Scheme under Chapter 10 of Part 17 of the Companies Act;
“Registrar of Companies”	the Registrar of Companies in England and Wales;
“Scheme”	this scheme of arrangement in its present form or with or subject to any modification, addition or condition which Northumbrian and UK Water may agree and which the Court may approve or impose;
“Scheme Document”	the circular dated 26 August 2011 sent by Northumbrian to Northumbrian Shareholders (and, for information only, to Persons With Information Rights and participants in the Northumbrian Share Plans), of which this Scheme forms a part;
“Scheme Record Time”	6.00 p.m. on the Business Day immediately before the Reduction Court Hearing;
“Scheme Shareholders”	registered holders of Scheme Shares from time to time;
“Scheme Shares”	Northumbrian Shares: <ul style="list-style-type: none"> (i) in issue at the date of the Scheme Document;

- (ii) (if any) issued after the date of the Scheme Document but prior to the Voting Record Time; and
- (iii) (if any) issued on or after the Voting Record Time but before the Scheme Record Time in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme,

in each case other than Excluded Shares;

“Statement of Capital”	the statement of capital (approved by the Court) showing with respect to Northumbrian’s share capital, as altered by the Reduction Court Order, the information required by section 649 of the Companies Act;
“SIP”	the Northumbrian Share Incentive Plan 2003;
“UK Listing Authority”	the Financial Services Authority, its successor from time to time, or any other body acting in its capacity as the competent authority for listing under the Financial Services and Markets Act 2000;
“UK Water”	UK Water (2011) Limited, a private limited company incorporated in England and Wales with registered number 07509453;
“Voting Record Time”	6.00 p.m. on 15 September 2011 or if the Court Meeting is adjourned, 6.00 p.m. on the second day before the date of such adjourned meeting;

and where the context so admits or requires, the plural includes the singular and *vice versa*.

References to **clauses** are to clauses of this Scheme.

2. As at 25 August 2011 (the latest practicable date prior to the date of this Scheme), 518,623,845 Northumbrian Shares have been issued and credited as fully paid.
3. As at the date of this Scheme, UK Water does not own any Northumbrian Shares. It is proposed that UK Water will acquire one Northumbrian Share prior to the Scheme Record Time.
4. UK Water has agreed to appear by Counsel on the hearing to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1. CANCELLATION OF SCHEME SHARES

- (a) The issued share capital of the Company shall be reduced by cancelling and extinguishing all of the Scheme Shares.
- (b) Forthwith and contingent upon the reduction of capital referred to in clause 1(a) taking effect the Company shall apply and capitalise the reserve arising in the books of account as a result of the reduction of capital in paying up in full at par such number of New Northumbrian Shares as is equal to the number of Scheme Shares cancelled pursuant to clause 1(a), which shall be allotted and issued credited as fully paid (free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and any other interests of any nature whatsoever) to UK Water and/or its nominee(s) (as UK Water may direct).

2. CONSIDERATION FOR CANCELLATION OF SCHEME SHARES

Subject to, and in consideration for, the cancellation of the Scheme Shares pursuant to clause 1(a) and the allotment and issue of New Northumbrian Shares to UK Water as provided in clause 1(b) of this Scheme, UK Water shall pay to (subject to the conditions below), or for the account of, each Scheme Shareholder 465 pence in cash for each Scheme Share held by that Scheme Shareholder (as appearing on the Northumbrian register of members at the Scheme Record Time).

3. SETTLEMENT OF CONSIDERATION

- (a) As soon as practicable after the Effective Date and in any event not later than 14 days thereafter UK Water shall despatch or procure the despatch of cheques to all Scheme Shareholders for the consideration due to them under the Scheme, save that cash amounts due pursuant to the Scheme to persons holding Scheme Shares in uncertificated form at the Scheme Record Time will be paid within that period through the CREST system unless otherwise determined by UK Water.
- (b) All cheques shall be made payable to the Scheme Shareholder or, in the case of joint holders, to the joint holder whose name stands first in the register of members of Northumbrian in respect of the joint holding at the Scheme Record Time or to such other persons (if any) as such persons may direct in writing. All such cash payments shall be made in pounds sterling by cheque drawn on a branch of a clearing bank in the United Kingdom and the encashment of any such cheques shall be a complete discharge by UK Water for the moneys represented thereby. In respect of payments made through the CREST system, UK Water will ensure that an assured payment obligation is created in accordance with the CREST assured payment arrangements. The creation of such assured payment obligation shall be a complete discharge of UK Water's obligations under the Scheme with reference to payments made through the CREST system.
- (c) All consideration required to be despatched pursuant to the Scheme shall be posted in prepaid envelopes addressed to persons entitled thereto at their respective addresses as appearing in the register of members of Northumbrian at the Scheme Record Time (or, in the case of joint holders, at the registered address of that one of the joint holders whose name stands first in the register of members of Northumbrian in respect of the joint holding at the Scheme Record Time) or such other address (if any) as such persons may respectively direct in writing.
- (d) Neither UK Water nor Northumbrian nor their respective nominees shall be responsible for any loss or delay in the transmission of any consideration posted in accordance with the Scheme which shall be sent at the risk of the persons entitled thereto.

4. CERTIFICATES IN RESPECT OF SCHEME SHARES

With effect from and including the Effective Date:

- (a) all certificates representing Scheme Shares shall cease to be valid as documents of title to the shares represented thereby and every holder thereof shall be bound at the request of the Company to deliver up the same to the Company or as it may direct, to destroy the same;
- (b) Euroclear shall be instructed to cancel the entitlements to Scheme Shares of holders of Scheme Shares in uncertificated form; and
- (c) appropriate entries will be made in the Company's register of members to reflect the cancellation of all Scheme Shares.

5. MODIFICATION

UK Water and the Company may jointly consent on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Court may approve or impose.

6. OPERATION OF THIS SCHEME

- (a) This Scheme shall become effective in accordance with its terms as soon as an office copy of the Court Orders and the Statement of Capital shall have been delivered to the Registrar of Companies in England and Wales for registration and, if the Court so orders for the Scheme to become effective, the registration by the Registrar of Companies of the Reduction Court Order and the Statement of Capital.
- (b) Unless this Scheme shall become effective on or before 27 January 2012 or such later date, if any, as Northumbrian and UK Water, with the consent of the Panel, may agree and (if required) the Court may approve, this Scheme shall never become effective.

Dated 26 August 2011

PART 8

NOTICE OF THE COURT MEETING

NORTHUMBRIAN WATER GROUP PLC

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 7099 of 2011

Mr. Registrar Nicholls

IN THE MATTER OF NORTHUMBRIAN WATER GROUP PLC
AND

IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that by an Order dated 18 August 2011 made in the above matters, the Court has given permission for a meeting (the “**Court Meeting**”) to be convened of the holders of Scheme Shares (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the “**Scheme of Arrangement**”) proposed to be made between (i) Northumbrian Water Group plc (“**Northumbrian**”) and (ii) the holders of Scheme Shares and that the Court Meeting will be held at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London EC1A 2FG on 19 September 2011 at 11.00 a.m. at which place and time all Scheme Shareholders (as defined in the Scheme of Arrangement) are requested to attend.

A copy of the said Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to section 897 of the Companies Act 2006 are incorporated in the document of which this Notice forms part.

The said Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person, whether or not a member of Northumbrian, as their proxy to attend, speak and vote in their stead. A BLUE form of proxy for use at the Court Meeting is enclosed with this Notice. Completion and return of a BLUE form of proxy will not prevent a Scheme Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he wishes to do so.

Scheme Shareholders are entitled to appoint a proxy in respect of some or all of their Scheme Shares. Scheme Shareholders are also entitled to appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different Scheme Share held by such holder. A space has been included in the BLUE form of proxy to allow Scheme Shareholders to specify the number of Scheme Shares in respect of which that proxy is appointed. Scheme Shareholders who return the BLUE form of proxy duly executed but leave this space blank will be deemed to have appointed the proxy in respect of all of their Scheme Shares. Scheme Shareholders who wish to appoint more than one proxy with respect to their shareholding should photocopy the BLUE form of proxy as required. Such Scheme Shareholders should read the information regarding the appointment of multiple proxies set out in the BLUE form of proxy.

It is requested that BLUE forms appointing proxies be lodged by sending them by post or (during normal business hours only) by delivering them by hand to Northumbrian’s Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU to be received no later than 11.00 a.m. on 15 September 2011 or, in the case of an adjourned meeting, not less than 48 hours before the time appointed for the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK), but if forms are not so returned they may be handed to Northumbrian’s Registrars, Capita Registrars Limited (on behalf of the Chairman of the Court Meeting) at the Court Meeting before the Court Meeting starts. A reply-paid envelope for use in the United Kingdom is enclosed for your convenience in returning the two forms of proxy.

In the case of joint holders of Scheme Shares, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of Northumbrian in respect of the joint holding.

Only those shareholders registered in the register of members of Northumbrian as at 6.00 p.m. (UK time) on 15 September 2011 or, in the case of an adjourned meeting, not less than 48 hours before the time appointed for the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or a public holiday in the UK) shall be entitled to attend and vote at the Court Meeting. Changes to entries in the relevant register of members after 6.00 p.m. (UK time) on 15 September 2011 or, in the event that the Court Meeting is adjourned, after 6.00 p.m. (UK time) on the second day before the day of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the Court Meeting.

By the said order, the Court has appointed Sir Derek Wanless or, failing him, Sir Austen Patrick Brown or, failing him, Alexander John Scott-Barrett to act as Chairman of the Court Meeting and has directed the Chairman to report the result of the Court Meeting to the Court.

Scheme Shareholders who hold their Scheme Shares in CREST (as defined in the Scheme of Arrangement) (“**CREST Scheme Shareholders**”) who wish to appoint a proxy or proxies through the CREST Electronic Proxy Appointment Service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com/CREST). CREST personal Scheme Shareholders or other CREST sponsored Scheme Shareholders, and those CREST Scheme Shareholders who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited (“**Euroclear**”) and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Northumbrian’s agent (ID RA10) to be received no later than 11.00 a.m. on 15 September 2011 or, in the case of an adjourned meeting, not less than 48 hours before the time appointed for the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or a public holiday in the UK). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Northumbrian’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST Scheme Shareholders and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST Scheme Shareholders concerned to take (or, if the CREST Scheme Shareholder is a CREST personal Scheme Shareholder or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST Scheme Shareholders and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Northumbrian may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Scheme Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so by completing and submitting their form of proxy online through the website of Northumbrian’s Registrars, Capita Registrars Limited, at www.capitashareportal.com. To vote online you will need to log in

to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the form of proxy.

A proxy appointment made electronically will not be valid if sent to any address other than that provided or if received after 11.00 a.m. on 15 September 2011. Please note that any electronic communication found to contain a computer virus will not be accepted.

The Scheme of Arrangement will be subject to the subsequent sanction of the Court.

DATED: 26 August 2011

Hogan Lovells International LLP
Atlantic House
50 Holborn Viaduct
London EC1A 2FG
Solicitors for Northumbrian

PART 9

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Northumbrian Water Group plc (the “**Company**”) will be held at the offices of Hogan Lovells International LLP at Atlantic House, Holborn Viaduct, London, EC1A 2FG on 19 September 2011 at 11.15 a.m. (or as soon thereafter as the meeting of Scheme Shareholders of the Company convened by direction of the Court for the same place and date shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution.

SPECIAL RESOLUTION

THAT:

1. for the purpose of giving effect to the scheme of arrangement dated 26 August 2011 between the Company and the holders of the Scheme Shares (as defined in the said scheme), a print of which has been produced to this meeting and for the purposes of identification signed by the Chairman hereof, in its original form or subject to such modification, addition or condition agreed between the Company and UK Water (2011) Limited (“UK Water”) and approved or imposed by the Court (the “Scheme”):
 - (a) the directors of the Company be authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme into effect;
 - (b) the share capital of the Company be reduced by cancelling and extinguishing all the Scheme Shares (as defined in the Scheme);
 - (c) subject to and forthwith upon the reduction of share capital referred to in paragraph (b) above taking effect and notwithstanding anything to the contrary in the articles of association of the Company:
 - (i) the reserve arising in the books of account of the Company as a result of the reduction of share capital referred to in paragraph (b) above be capitalised and applied in paying up in full at par such number of new ordinary shares of 10 pence each in the capital of the Company as is equal to the number of Scheme Shares cancelled pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to UK Water and/or its nominee(s) in accordance with the Scheme; and
 - (ii) conditional upon the Scheme becoming effective, the directors of Northumbrian be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 to allot the new ordinary shares referred to in sub-paragraph (c)(i) above, provided that: (1) the maximum aggregate nominal amount of relevant securities that may be allotted under this authority shall be the aggregate nominal amount of the said new ordinary shares created pursuant to sub-paragraph (c)(i) above; (2) this authority shall expire (unless previously revoked, varied or renewed) on the fifth anniversary of this resolution; and (3) this authority shall be in addition, and without prejudice, to any other authority under the said section 551 previously granted and in force on the date on which this resolution is passed.

Registered Office:
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ

By order of the Board
Martin Parker
Company Secretary
Dated: 26 August 2011

Notes:

Entitlement to attend and vote

1. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company as at 6.00 p.m. (UK time) on 15 September 2011 or, in the event that the meeting is adjourned, in the register of members at 6.00 p.m. (UK time) on the date 48 hours before the date of any adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK). Changes to entries on the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.
2. In order to attend and vote at this meeting you must comply with the procedures set out in these notes by the dates specified in these notes.
3. Any member attending the meeting is entitled to ask any question relating to the business being dealt with at the meeting. Northumbrian will answer any such questions unless (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; or (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of Northumbrian or the good order of the meeting that the question be answered.

Appointment of proxies

4. A holder of Northumbrian Shares entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote at the meeting instead of him/her. A proxy can only be appointed using the procedures set out in these notes and the notes to the proxy form. A WHITE form of proxy which may be used to make such appointment and give proxy instructions is enclosed with this notice. If you think you may not be able to attend the meeting, please complete and return the WHITE form of proxy. Please indicate how you wish your vote to be cast by inserting an "X" in the appropriate box. In the event that you wish to appoint a person other than the Chairman as your proxy, delete the reference to the Chairman and insert the name and address of the person you wish to appoint in the space provided. A proxy need not be a member of the Company but must attend the meeting to represent the member appointing him or her. Instructions for use are shown on the WHITE form of proxy.
5. A holder of Northumbrian Shares entitled to attend and vote at the meeting may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to different shares of that holder of Northumbrian Shares. To appoint more than one proxy, a holder of Northumbrian Shares should photocopy the WHITE form of proxy, or obtain the appropriate number of additional WHITE forms of proxy by contacting Northumbrian's Registrar's helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 664 0321 (from within the UK) or +44 20 8639 3399 if calling from outside the UK (calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice), or by attaching a schedule to the form of proxy specifying the full name of each proxy, the number of shares each proxy appointment relates to and how you wish the proxies' votes to be cast. In each case, a failure to specify the number of shares each proxy appointment relates to, or specifying a number of shares in excess of those held by the member on the date referred to in note 1 above, will result in the proxy appointments being invalid.
6. To be effective, the WHITE form of proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at Northumbrian's Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, as soon as possible, and in any event so as to be received by 11.15 a.m. (UK time) on 15 September 2011 or, if the meeting is adjourned, by not later than 48 hours before the time of the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK). Forms of proxy returned by fax will not be accepted. A reply-paid envelope for use in the United Kingdom is enclosed for your convenience in returning the two forms of proxy.
7. The "Vote Withheld" option is provided to enable you to abstain on the specified resolution. However, it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" the specified resolution.
8. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company.
9. The return of a completed WHITE form of proxy, the electronic appointment of a proxy in accordance with paragraph 10 of these notes or CREST Proxy Instruction (as described in note 12 below) will not prevent a member attending the meeting and voting in person if he/she wishes to do so.

Electronic proxy appointment

10. A member who prefers to register the appointment of their proxy electronically via the internet can do so by completing and submitting their form of proxy online through the website of Northumbrian's Registrars, Capita Registrars Limited, at www.capitashareportal.com. To vote online you will need to log in to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your investor code set out on the form of proxy. A proxy appointment made electronically will not be valid if sent to any address other than that provided or, if received after

11.15 a.m. on 15 September 2011. Please note that any electronic communication found to contain a computer virus will not be accepted.

CREST electronic proxy appointment service

11. Shareholders who hold their shares in the Company through CREST (“CREST members”) and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
12. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear’s specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent, Capita Registrars Limited (ID RA10), not later than 11.15 a.m. on 15 September 2011 (or, in the case of an adjourned meeting, not less than 48 hours before the time of the adjourned meeting (excluding any part of such 48 hour period falling on a weekend or public holiday in the UK)). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
13. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
14. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Changing proxy instructions

15. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Termination of proxy appointments

16. In order to revoke a proxy instruction you will need to inform Northumbrian by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Northumbrian’s Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy or a notarially certified or office copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Northumbrian’s Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, no later than 11.15 a.m. on 15 September 2011.

Nominated Persons

17. Any person who is not a member of the Company, but has been nominated under section 146 of the Companies Act 2006 by a member of the Company (the “relevant member”) to enjoy information rights, (the “nominated person”) does not have a right to appoint any proxies under note 4 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the meeting. If a nominated person does not have such a right, or has such a right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights. The main point of contact in terms of a nominated person’s investment in the Company remains the member of the Company who nominated such person to have information rights (or perhaps the custodian or broker who administers the investment on the nominated person’s behalf) and the nominated person should continue to contact them (and not the Company) regarding any changes or queries relating to their personal details and their interest in the Company (including any administrative matters). The only exception to this is where the Company in exercising one of its powers under the Companies Act 2006 expressly requests a response from such nominated person.

Corporate representatives

18. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Issued shares and total voting rights

19. As at 25 August 2011 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 518,623,845 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 25 August 2011 are 518,623,845. On a vote of a show of hands every ordinary member who is present has one vote for every ordinary share held and every proxy present who has been duly appointed by a member entitled to vote has one vote for every ordinary share held.

Documents and information on display or otherwise

20. In accordance with Section 311A of the Companies Act 2006, from the date of this notice the following information will be available on the Company's website and can be accessed at www.nwg.co.uk:
 - (i) the matters set out in this notice of meeting;
 - (ii) the total numbers of shares in the Company and shares of each class, in respect of which members are entitled to exercise voting rights at the meeting; and
 - (iii) the totals of the voting rights that members are entitled to exercise at the meeting in respect of the shares of each class.
21. In accordance with Section 311A of the Companies Act 2006, any members' statements, members' resolutions and members' matters of business received by the Company after the date of this notice will be added to the information already available on the website as soon as reasonably practicable.

Helpline

22. If you have any questions about this document, the Court Meeting, the General Meeting or the Acquisition or are in any doubt as to how to complete the forms of proxy, please call the Northumbrian Shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0871 664 0321 (from within the UK) or +44 20 8639 3399 (from outside the UK). Calls to the 0871 664 0321 number will be charged at 10 pence per minute plus network extras. Calls to the helpline from outside the UK will be charged at the applicable international rate. Calls may be recorded and monitored for security and training purposes. The helpline cannot provide advice on the merits of the proposals nor give any financial, legal or tax advice.

Results

23. The results of the voting at the meeting will be announced through a Regulatory Information Service and will appear at www.nwg.co.uk.

