



Northumbrian Water Group plc
Notice of Annual General Meeting 2005



Northumbria House, Abbey Road,
Pity Me, Durham, DH1 5FJ
Telephone: +44 (0)870 608 4820
Fac: +44 (0)191 301 6705
DX 717041 Durham 15
www.nwg.co.uk

June 2005

Dear Shareholder

I am delighted to invite you to our second Annual General Meeting which will be held at 12.30 pm on Thursday 28 July 2005 in the Bishops Suite, Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD. The business to be covered at the Meeting is set out on pages 1 and 2 of this booklet.

You are welcome to join me and my fellow directors for light refreshments from 12 noon. Please bring the enclosed registration card with you to speed up your entry to the Meeting.

If you are intending to come, would you please return the enclosed attendance card.

If you are unable to attend but would like to raise a question about the business to be conducted at the Meeting, please do not hesitate to write to me or the Company Secretary at the address above, or send an email to shareholders@nwl.co.uk.

The directors encourage you to exercise your right to vote by completing the enclosed proxy form and sending it to our Registrars to arrive no later than 12.30 pm on 26 July 2005. The results of the proxy votes on each resolution will be available at the Meeting and on the Company's website after the Meeting. If you return the proxy form you may still attend the Meeting and vote in person, in place of your proxy vote.

I hope the Annual report and financial statements have been of interest to you. Any feedback you are able to give by returning the enclosed feedback form will be gratefully received.

I look forward to meeting those of you who are able to attend on 28 July.

Yours sincerely,

A handwritten signature in black ink that reads "Fred Holliday". The signature is written in a cursive style with a long, sweeping tail that loops back under the name.

Sir Frederick Holliday
Chairman

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of Northumbrian Water Group plc (the Company) will be held in the Bishops Suite, Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD on 28 July 2005 at 12.30 pm for the following purposes:

Ordinary Business

1. To receive and adopt the audited financial statements and the reports of the Directors and the Auditors for the year ended 31 March 2005.
2. To approve the Operating and financial review for the year ended 31 March 2005.
3. To approve the Directors' remuneration report set out on pages 48 to 53 of the Annual report and financial statements for the year ended 31 March 2005.
4. To declare a final dividend of 7.13 pence per ordinary 10 pence share.
5. To re-appoint as a director Sir Patrick Brown who retires by rotation.
6. To re-appoint as a director Martin Nègre who retires by rotation.
7. To re-appoint Ernst & Young LLP as auditor and to authorise the directors to determine its remuneration.

Special Business

8. To consider and, if thought fit, pass the following as an ordinary resolution:

THAT the Company and its subsidiaries be and are hereby authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure in an aggregate amount not exceeding £25,000 during the period beginning with the date of this resolution and ending at the close of the annual general meeting of the Company to be held in 2006 or 27 October 2006 (whichever is the sooner). For the purposes of this resolution, the terms "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

9. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT the directors be given power under Section 80(1) of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (as defined in the Act) up to an aggregate nominal amount of £17,287,461 at any time or times during the period from the date of passing this resolution until conclusion of the annual general meeting of the Company to be held in 2006 or 27 October 2006 (whichever is the sooner) unless any offer or agreement is made before the end of that period in which case the directors may allot relevant securities pursuant to such offer or agreement as if the power granted by this resolution had not expired.

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

THAT, subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the Act) to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them; and
- (b) to the allotment (otherwise than pursuant to subparagraph (a) above) of equity securities up to an aggregate nominal amount of £2,593,119;

Notice of Annual General Meeting continued

and this power shall expire on the date of the annual general meeting of the Company to be held in 2006 or 27 October 2006 (whichever is the sooner), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

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

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

- (a) the Company may not purchase more than 5,186,238 Ordinary Shares;
- (b) the Company may not pay less than 10 pence for each Ordinary Share;
- (c) the Company may not pay more than 5% over the average of the middle market price of the Ordinary Shares based on the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Company agrees to purchase the Ordinary Shares; and
- (d) this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2006 or on 27 October 2006 (whichever is the sooner).

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

THAT the Company's Articles of Association be altered by making the following amendments:

- (a) the words "and subject to Article 33.5 below" in Article 33.2 be deleted;
- (b) the words "Subject to Article 33.5 below," in Articles 33.3 and 33.4 be deleted; and
- (c) Article 33.5 be deleted.

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

THAT the Company's Articles of Association be altered by the deletion of the current Article 60 and that it be replaced by the new Article 60 set out below:

"60. Indemnity

60.1 Without prejudice to any indemnity to which he may otherwise be entitled, any person who is or was at any time a Director, alternate Director, officer or employee of the Company (excluding any present or former Auditors) shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses (including, without limiting the foregoing, legal expenses) and liabilities incurred by him in the execution and discharge of his duties or in relation thereto which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company to the extent permitted by the Companies Acts (which shall include, for the avoidance of doubt, the Companies (Audit, Investigations and Community Enterprise) Act 2004). The Company may effect insurance in respect of its liability under this indemnity."

By Order of the Board

Martin Parker
Company Secretary
7 June 2005

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

Explanatory notes

Resolution 1 – Financial statements and Directors’ and Auditors’ reports

The directors must present to shareholders at the Annual General Meeting (the Meeting) the audited financial statements of the Company and the Directors’ and Auditors’ reports for the year ended 31 March 2005. An information desk will be provided at the Meeting to answer any shareholders’ detailed questions relating to these reports and financial statements.

Resolution 2 – Operating and financial review (OFR)

The draft Companies Act 1985 (Operating and Financial Review and Directors’ Report etc.) Regulations 2005 require companies to produce an OFR for financial periods commencing on or after 1 April 2005, and to present the OFR to shareholders at general meeting. Although the Company is not required to present an OFR until 2006, the Board has endeavoured to meet the new reporting requirements for the current reporting year, and the directors therefore wish to present the OFR to shareholders at the Meeting for approval. As the OFR is not yet a statutory requirement the shareholder vote will be advisory only. An information desk will be provided at the Meeting to answer any shareholders’ detailed questions relating to the OFR.

Resolution 3 – Directors’ remuneration report

The Directors’ remuneration report for the year has been prepared in accordance with The Directors’ Remuneration Report Regulations 2002 (the Regulations) and has been approved by the Board. The Directors’ remuneration report is set out on pages 48 to 53 of the Annual report and financial statements for the year. In accordance with the Regulations, shareholders must also be given the opportunity to approve the Directors’ remuneration report. The shareholder vote will be advisory only. The directors ask that the shareholders approve this report.

Resolution 4 – Declaration of final dividend

A final dividend of 7.13 pence per ordinary 10 pence share is recommended by the directors for payment to shareholders who are on the Register of Members at the close of business on 19 August 2005. It is proposed that shareholders declare this dividend by passing this resolution. Final dividends must be declared by shareholders, but must not exceed the amount recommended by the directors. If declared, the date of payment of the final dividend will be 16 September 2005.

Resolutions 5 - 6 – Re-appointment of directors

In accordance with the Company’s Articles of Association and good corporate governance, at least one third of the Company’s directors must retire by rotation at each annual general meeting (AGM). Two directors are therefore seeking re-appointment at the Meeting. The Board recommends that each individual director be re-appointed to the Board because of the experience and expertise that he brings, as evidenced by the biographies, and the active contribution that he makes and will continue to make to the Board. Information on the directors seeking re-appointment at the Meeting can be found on page 4 of this booklet and on page 11 of the Annual report and financial statements.

Resolution 7 – Re-appointment and remuneration of the auditor

It is a requirement that the auditor of a Company is re-appointed at each general meeting at which accounts are presented. Ernst & Young LLP has expressed its willingness to continue in office for a further year and this resolution proposes its re-appointment and, in accordance with standard practice, authorises the directors to set the auditor’s remuneration.

Resolution 8 – Political donations and expenditure

It is the Company’s policy that it does not make what are commonly regarded as donations to any political party. The definition of donations in the Political Parties, Elections and Referendums Act 2000 (PPERA 2000) is wide and covers activities which form part of the normal relationship between the Company and political organisations, such as sponsoring receptions and fringe meetings at party conferences and taking tables at dinners, intended to heighten awareness within the political arena of key industry issues and matters affecting the Company. Political expenditure and/or donations up to a total of £40,000 for the Group for the period of two years from the date of the approval were approved by the shareholders at the Extraordinary General Meeting of the Company held on 16 December 2003. During the year, the Group made political donations, applying the wide definitions from the PERA 2000, totalling £10,995 (£7,961 in the previous period). This resolution will allow the Company (or its subsidiaries) to incur total expenditure up to £25,000 in the period ending at the conclusion of the AGM of the Company to be held in 2006 or 27 October 2006 (whichever is the sooner).

Resolution 9 – Authority to allot shares

Resolution 9, which is an ordinary resolution, authorises the directors to allot unissued shares up to an aggregate nominal value of £17,287,461, which is equivalent to 33.33% of the Company’s issued ordinary share capital as at 7 June 2005. This authority, if granted, will expire at the conclusion of the AGM of the Company to be held in 2006 or 27 October 2006 (whichever is the sooner). As at 7 June 2005 the Company held no shares as treasury shares. At present, the directors have no intention to use this authority.

Resolution 10 – Disapplication of pre-emption rights

If shares are to be allotted using the authority under Resolution 9, and are to be paid for in cash, Section 89(1) of the Companies Act 1985 requires that those shares are offered first to existing shareholders in proportion to the number of Ordinary Shares they each hold at that time. An offer of this type is called a “rights issue” and the entitlement to be offered the shares first is known as a “pre-emption right”.

In certain circumstances however, it may be in the interests of the Company for the directors to be able to allot some of the shares for cash other than by way of a rights issue.

Explanatory notes continued

This resolution, which is a special resolution, asks shareholders to waive their pre-emption rights, but only for securities having a maximum aggregate nominal value of £2,593,119, which is equivalent to 5% of the Company's issued ordinary share capital as at 7 June 2005. This authority will expire at the conclusion of the AGM of the Company to be held in 2006, or on 27 October 2006 (whichever is the sooner). Any issue of shares under this resolution would be carried out in line with ABI Guidelines which require the maximum amount of authority which should be sought from shareholders to disapply pre-emption rights as 5% of issued ordinary share capital, or 7.5% in any three year period. If approval is given for disapplication of pre-emption rights up to a value of £3,889,678, then no further shares could be issued without first being offered to existing shareholders until after the AGM in 2008.

Resolution 11 – Authority for the Company to purchase its own shares

If passed, this authority will allow the Company to purchase up to 5,186,238 of its 10 pence ordinary shares (approximately 1% of the issued share capital). The resolution sets out the lowest and highest prices the Company can pay for the shares. The

Company will only exercise this authority if such purchases were expected to increase earnings per share and the directors consider the purchases to be in the interests of shareholders generally. The Company has no current intention of making such purchases.

Resolution 12 – Changes to Company's Articles of Association (the Articles) - Article 33

Article 33 relates to the appointment and removal of directors, and includes references to the appointment of directors by Lyonnaise Europe plc (now Suez Environment UK Limited) (Suez). Suez has sold its shareholding in the Company and the Relationship Agreement giving Suez the right to appoint two directors has terminated. These proposed changes to the Articles would remove references to Lyonnaise Europe plc which are no longer relevant.

Resolution 13 – Further change to the Articles - indemnification of directors

The proposed replacement of Article 60 is to reflect the changes introduced by the Companies (Audit, Investigations and Community Enterprise) Act 2004.

Biographies of directors seeking re-appointment

The Chairman has evaluated the performance of both the directors seeking re-appointment and confirms that they both demonstrate commitment to their roles and contribute effectively to the Board. The Chairman believes that Sir Patrick Brown and Martin Nègre are both fully committed to their role in scrutinising the performance of management, the achievement of goals and the integrity of the Company's financial information, controls and risk management systems. Sir Patrick has chaired the Audit Committee and participated fully in the Company's compliance with corporate governance requirements. Martin Nègre has chaired the Remuneration Committee and played a significant role in the Company's development of strategy and its approach to commercial risk.

Sir Patrick Brown

Senior Independent Non-executive Director (65)

Sir Patrick Brown was appointed to the Board in May 2003. Sir Patrick is Chairman of the Audit Committee and a member of the Nomination, Remuneration and Treasury Committees of the Board. He held various positions in the Department of Transport and the Department of the Environment, becoming Second Permanent Secretary and Chief Executive of the Property Services Agency in 1990. He was Permanent Secretary for the Department of Transport from 1991 to 1997. Sir Patrick became a non-executive director of the Go-Ahead Group plc in 1999 and its Chairman in 2002, a post that he still holds. In 2004 Sir Patrick was appointed a non-executive director of Amey plc and Amey UK plc.

Martin Nègre

Independent Non-executive Director (58)

Martin Nègre was appointed to the Board in May 2003. Martin is Chairman of the Remuneration Committee and a member of the Nomination Committee of the Board. He was, between April 2000 and April 2001, the Chief Executive Officer of the former Northumbrian Water Group plc and the chief corporate representative of its parent company Suez in the United Kingdom. He is currently the Chairman of Ecofin Global Utilities Hedge Fund Limited, an Irish Stock Exchange listed fund, and a director of Ecofin Water & Power Opportunities plc, a listed investment trust of which he was Chairman for three years. Both funds are focused on utilities.

General notes

Entitlement to attend and vote

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

A shareholder entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company. A form of proxy for the Meeting is enclosed with this Notice. To be valid, a form of proxy together with, if applicable, the Power of Attorney or other authority under which it is signed, or a certified copy thereof, must be lodged with or posted to Proxy Department, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU to be received not later than 12.30 pm on 26 July 2005. If you appoint a proxy other than the Chairman of the Meeting, please ensure that your proxy brings to the Meeting some form of identification. Completion and return of a form of proxy will not prevent a shareholder attending and voting at the Meeting in person should he or she wish to do so.

Documents on display

The following documents are available for inspection at the registered office of the Company during normal business hours on any weekday from the date of this Notice until and including the date of the Meeting and will be available at the Ramside Hall Hotel & Golf Club, Carrville, Durham, DH1 1TD from 12 noon on the day of the Meeting and during the Meeting:

- Copies of the executive directors' service contracts.
- Copies of the terms and conditions of appointment of the non-executive directors.
- Register of the interests of the directors and connected persons.
- A copy of the existing Memorandum and Articles of Association and a copy of the proposed revised Articles of Association which will replace the existing Articles if Resolutions 12 and 13 are passed at the Meeting.
- Terms of reference of the Audit, Nomination and Remuneration Committees of the Board.

Electronic proxy voting

The Company does not propose to use electronic proxy voting for this Meeting. During the year, the Company received only two requests from shareholders who were interested in using this service. As there is a cost in providing such a service, the Company does not feel that the level of interest registered at present justifies that expense. The Company will review this annually and is keen to hear from any other investors who would like to register an interest in using electronic voting at future general meetings. Shareholders are invited to write to the Company Secretary, Northumbrian Water Group plc, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ or to contact the Secretariat by telephone on 0191 301 6704, or by email at shareholders@nwl.co.uk.

Employee share plans

An employee whose shares are held by the trustees under the Northumbrian Water Group Share Incentive Plan is not entitled to attend the Meeting in respect of those shares. However, the employee can, in the meantime, instruct the trustees of the plan how to vote on his or her behalf on any resolution set out in the Notice of Annual General Meeting, should the resolution be put to a formal vote by poll. Voting direction forms will be sent to those employees concerned and should be returned to the address on the reverse of that form to be received no later than close of business on 15 July 2005.

Further information and special requirements

If you have any questions about the Meeting, or require any special access or facilities, please contact the Secretariat on 0191 301 6701.

Venue location and directions

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

Directions are as follows:

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



Northumbrian Water Group plc

Northumbria House, Abbey Road,

Pity Me, Durham DH1 5FJ

Tel: 0870 608 4820

Fax: 0191 301 6202

Registered in England & Wales

Registered number 4760441

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