

Ownership, management and capital structures

1. This appendix sets out the pre- and post-merger ownership and capital structures for MKW, SEW and the merged company.

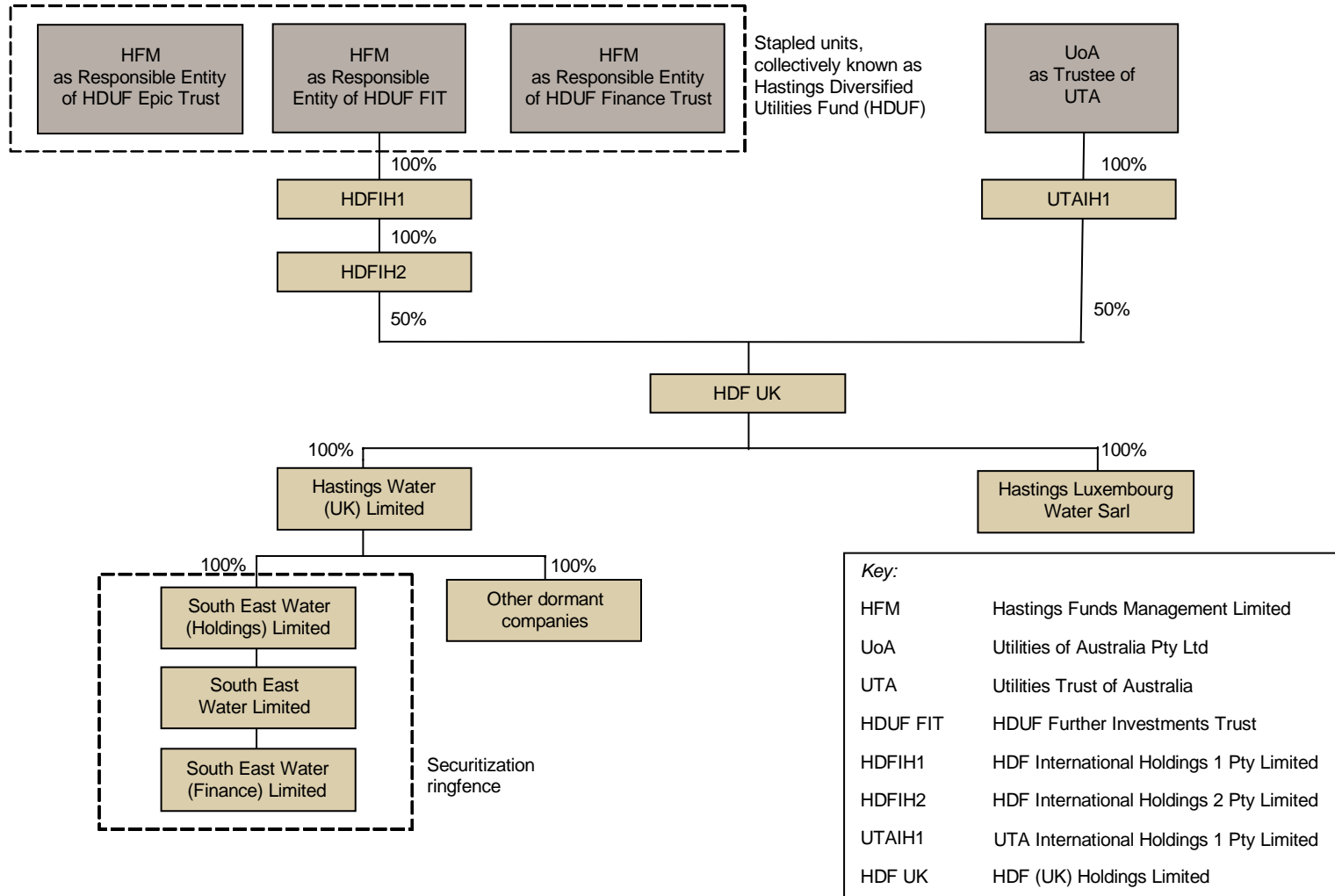
Ownership structure

2. Figure 1 shows the ownership structure of SEW at 31 January 2007. The chart shows that UTA and HDUF are, in the same voting proportions, the ultimate owners of SEW. UTA holds its interest in the SEW group of companies through UTA International Holdings Pty Ltd (UTAIH1). HDUF holds its interest in the SEW group of companies through HDF International Holdings 1 Pty Ltd (HDFIH1) and its wholly-owned subsidiary HDFIH2 (or HDF International Holdings 2 Pty Ltd). UTAIH1 and HDFIH1 are both wholly-owned subsidiaries established as acquisition vehicles in February 2005¹ for UTA and HDUF's respective 50 per cent shares in the MKW group of companies. The SEW group of companies was acquired via HDF (UK) Holdings Limited (HDF(UK)), a special-purpose UK resident acquisition vehicle. All the subsidiaries of HDF(UK) already existed and were part of the SEW group prior to its acquisition by UTA and HDUF.

¹Since the acquisition, HDUF's share of MKW has been transferred to another holding company, HDF International Holdings 2 Pty Limited.

FIGURE 1

Ownership structure of SEW



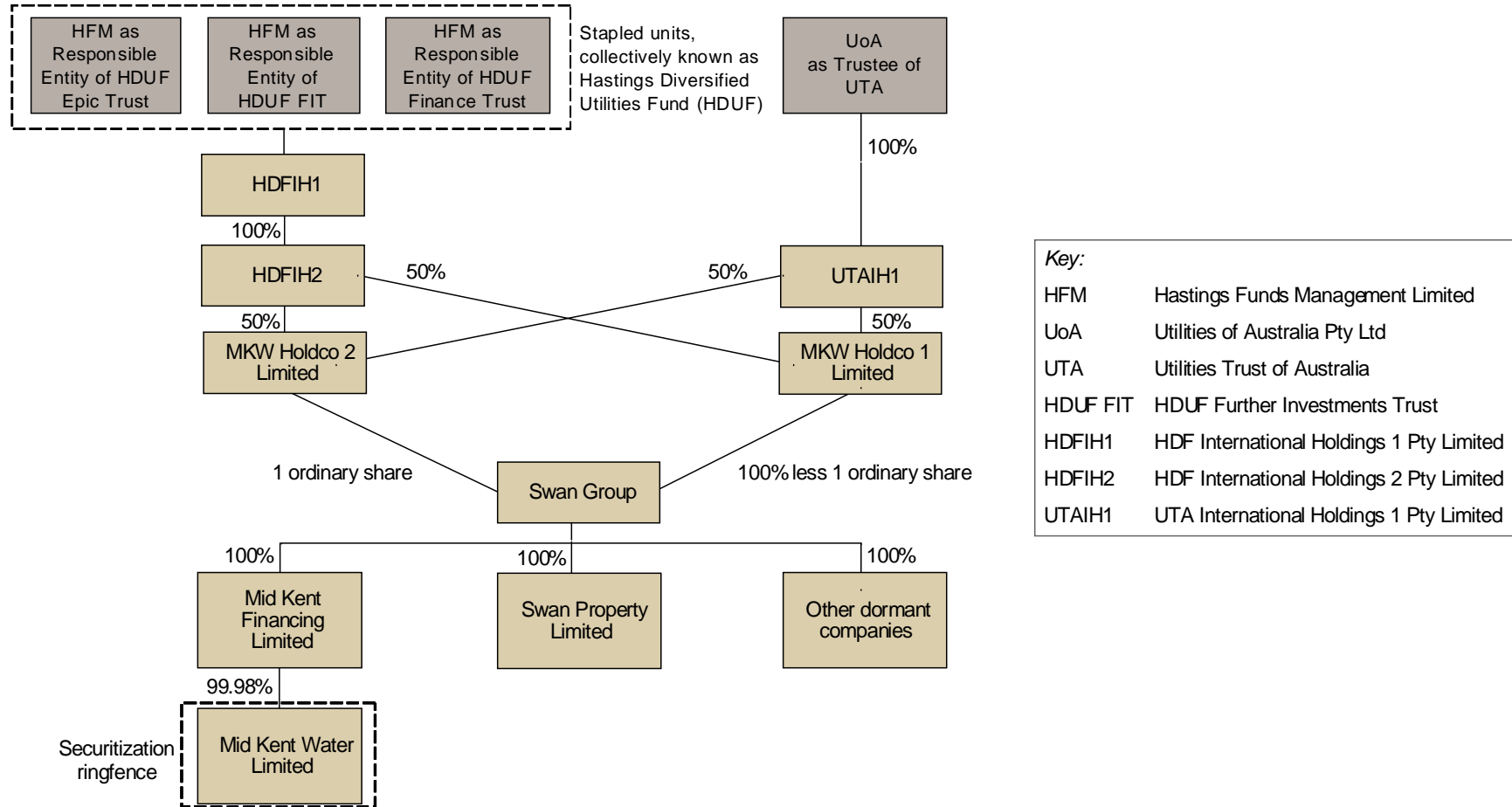
Source: Hastings.

3. On acquisition, HDF(UK) purchased the entire share capital of Macquarie Luxembourg Water Sarl (subsequently renamed Hastings Luxembourg Water Sarl (Hastings Luxembourg)), which was the holding company of the SEW group of companies under MEIF's ownership. Macquarie Water (UK) Limited (now renamed Hastings Water (UK) Limited (Hastings Water)) was a direct subsidiary of Hastings Luxembourg and was the SEW group's UK holding company. Ownership of Hastings Water was transferred from Hastings Luxembourg to HDF(UK) as part of a restructuring completed on 7 December 2006.
4. Under MEIF's and its co-investors' ownership, the Managing Director of SEW was Margaret Devlin who had held that position for seven years up to May 2006, and the Chairman was Peter Dyer who had held that position since 2005. Of the six other (non-executive) directors, three were MEIF representatives and three were independent. Martin Baggs was appointed as Managing Director in June 2006 having previously held the position of Asset Director at Southern Water. When SEW was acquired by Hastings, Martin Baggs (Managing Director) was replaced by Paul Butler, previously Managing Director of MKW. At the same time, Peter Dyer (Chairman) was replaced by Gordon Maxwell, previously Chairman of MKW. The three MEIF directors left and Peter Taylor (Hastings) and Jo Stimpson (previously Head of Finance at MKW) joined the board. The other non-executive directors at the time of the acquisition (Keith Henry, Baroness Detta O'Cathain and Stephen Box) remained in place. In December 2006, Stephen Box stepped down having accepted a board position at Thames Water and was replaced by Baroness Julia Cumberlege and David Shore joined the board on 28 February 2007.
5. Figure 2 shows the ownership structure of MKW following a restructuring which took place on 28 February 2007. The chart shows that UTA and HDUF are, in the same voting proportions, the ultimate owners of MKW. Post-restructuring HDUF will hold its

interest in the MKW group of companies through HDF International Holdings 1 Pty Ltd (HDFIH1) and HDF International Holdings 2 Pty Ltd (HDFIH2). UTA holds its interest in the MKW group of companies through UTAIH1.

FIGURE 2

MKW group structure



Source: Hastings.

6. The board of MKW is currently comprised of Graham Setterfield (Chairman; prior to the merger, a non-executive director), Paul Seeley (Managing Director; previously Asset Director), David Murphy (Head of Finance and Company Secretary, previously Financial Controller), Carey Anderson, Barry Capp and three non-executive directors; Damien Green, Charles Harries and Robert Weeden. Carey Anderson and Barry Capp are Hastings-appointed non-executive directors. Graham Setterfield, Paul Seeley and David Murphy were appointed to their current positions in October 2006 following the transfer of Gordon Maxwell, Paul Butler and Jo Stimpson to SEW following its acquisition by HDUF and UTA. A further non-executive director, David Ridley, was appointed in January 2007.

Post-merger ownership structure

7. Hastings said that following completion of the merger, it would seek to merge SEW and MKW's licences, thereby creating a single licensed water undertaker. A very high level analysis of the organizational structure of the merged group is currently being undertaken to assist in the creation of a combined financial model.
8. Hastings told us that the indicative ownership structure aimed to achieve the following broad objectives: [REDACTED].
9. From a management perspective, Hastings anticipated that the board of directors of the combined entity would be comprised of [REDACTED]. The divisional management structure and key appointments below that level have not been finalized.

Capital structure

10. As at November 2006 the capital structure of the MKW group of companies was as follows: the equity [REDACTED]; the external debt comprises £[REDACTED] index-linked senior debt (in MKW Limited), debentures totalling £[REDACTED] and mezzanine debt [REDACTED]. Based on these

figures the gearing (calculated as external net debt divided by the RCV²) of the regulated entity was [%] per cent and, taking into account the mezzanine debt, the consolidated group net debt was [%] per cent. As at November 2006, undrawn facilities totalled £[%]. The mezzanine debt is repayable in 2010 and the senior debt in 2032 and 2033.

11. As at September 2006, the capital structure of the SEW group of companies comprised external debt as follows: £[%] drawn senior revolving facility; £[%] index-linked senior debt repayable 2019; £[%] fixed rate senior debt repayable 2029; £[%] finance leases; and £[%] debentures. [%] Based on the above figures, the gearing level (calculated as external net debt divided by the RCV)³ of the regulated entity was [%] per cent. Taking [%] into account, this figure rises to [%] per cent.
12. On acquisition, UTA agreed in principle to [%].

Post-merger capital structure

13. The post-merger structure discussed above is purely indicative but Hastings said that it envisaged the capital structure of the combined group remaining largely unchanged.
14. Hastings would seek to [%]. In addition, the total amount of senior debt outstanding post-merger would also remain largely unchanged and would largely be equal to the sum of the stand-alone indebtedness forecast going forward.
15. Hastings Luxembourg would [%].

²Estimated value of RCV at 31/11/2006.

³Estimated value of RCV at 30/9/2006.

16. With regard to equity, based on the indicative group structure set out above, the equity capital structure of the combined business would remain largely the same. At this stage Hastings would envisage the merger to be effected through [X]. The amount of shares issued by [X] would depend upon the fair valuation of the assets of [X]. [X]