

EXECUTION COPY

STOCK PURCHASE AGREEMENT

BETWEEN

KELDA GROUP INC.

and

MACQUARIE UTILITIES INC.

Dated as of February 24, 2006

SALE OF AQUARION COMPANY

ALLEN & OVERY
NEW YORK

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STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT (together with the Schedules and Exhibits, this **Agreement**) dated as of February 24, 2006.

BETWEEN:

- (1) **KELDA GROUP INC.**, a Delaware corporation (**Seller**); and
- (2) **MACQUARIE UTILITIES INC.**, a Delaware corporation (**Purchaser**).

WHEREAS:

Purchaser desires to purchase from Seller, and Seller desires to sell to Purchaser, all of the issued and outstanding shares of common stock, par value U.S.\$0.01 per share (the **Shares**), of Aquarion Company, a Delaware corporation (**Company**), for the consideration and on the terms and subject to the conditions set forth in this Agreement; and

Concurrently with the execution and delivery of this Agreement, and as a condition to Purchaser's willingness to enter into this Agreement, Kelda Group plc, a public limited company organized under the laws of England and Wales and indirect parent of Seller (**Kelda**), has agreed to fully and unconditionally guarantee the representations, warranties, covenants and other obligations of Seller set forth in this Agreement (the **Kelda Guarantee**), which Guarantee is set forth as Exhibit B.

ACCORDINGLY, the parties agree as follows:

1. PURCHASE AND SALE OF SHARES; REPAYMENT OF INTER-COMPANY LOAN; CLOSING

1.1 Purchase and Sale of the Shares; Repayment of Inter-Company Loan

On the terms and subject to the conditions of this Agreement, at the Closing (as defined below), (a) Seller shall sell, assign, transfer and deliver to Purchaser, and Purchaser shall purchase from Seller, the Shares for an aggregate purchase price of U.S.\$615 million (the **Purchase Price**), payable as set forth in Section 1.3(e) and (b) Purchaser shall pay to Kelda, on behalf of Company, the sum of U.S.\$10 million (the **Repayment Amount**) as payment in full for all amounts owing and due from Company under the Inter-Company Loan Agreement, dated as of February 6, 2006, by and between Company and Kelda (the **Inter-Company Loan**), in the manner set forth in Section 1.3(d). The purchase and sale of the Shares is referred to in this Agreement as the **Acquisition**. Upon (i) such delivery, (ii) payment for the Shares and (iii) either (A) indorsement of certificates representing the Shares to Purchaser or (B) registration of such certificates by Company in the name of Purchaser, and assuming Purchaser has not theretofore received any "notice of adverse claim" within the meaning of Section 8-105 of the Delaware Uniform Commercial Code (UCC) with respect to the Shares, Purchaser shall be a "protected purchaser" (within the meaning of Section 8-303 of the UCC) of the Shares and shall have acquired ownership of the Shares free and clear of any adverse claim.

1.2 Closing Date

On the terms and subject to the conditions of this Agreement, the Acquisition shall take place at a closing (the **Closing**) to be held at the offices of Allen & Overy LLP, 1221 Avenue of the Americas, New York, New York 10020 (or at such other place as the parties may agree), at 10:00 a.m., local time, on the second day that is not a Saturday, Sunday or other day on which banks are required by Applicable Law (as defined below) to be closed in The City of New York following the satisfaction (or, to the extent permitted, the waiver) of all conditions set forth in Article 6 (other than such conditions that are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time and date as the parties may agree. The Closing shall be effective as of 11:59 p.m. local time in New York, New York on the date of the Closing, and such date is referred to in this Agreement as the **Closing Date**.

1.3 Transactions to be Effected at the Closing

At the Closing:

- (a) Seller shall deliver or cause to be delivered to Purchaser certificates representing the Shares duly endorsed in blank or accompanied by stock powers duly executed and in a form reasonably satisfactory to Purchaser, with appropriate transfer tax stamps, if any, affixed;
- (b) Seller shall deliver or cause to be delivered to Purchaser a certificate duly executed on behalf of Seller as described in Sections 6.2(a) and 6.2(b);
- (c) Seller shall deliver to Purchaser a duly executed receipt for the Purchase Price and for the Repayment Amount, together with the Inter-Company Loan and a letter from Kelda indicating that the Inter-Company Loan has been repaid in full;
- (d) Purchaser shall deliver to Seller payment, by wire transfer to a bank account designated in writing by Seller (such designation to be made at least five days prior to the Closing Date), in immediately available funds in an amount equal to the sum of the Purchase Price plus the Repayment Amount;
- (e) Purchaser shall deliver or cause to be delivered to Seller a certificate duly executed on behalf of Purchaser as described in Sections 6.3(a) and 6.3(b);
- (f) Seller shall deliver or cause to be delivered to Purchaser the resignations, effective as of the Closing, of those officers and directors of Company and the Subsidiaries (as defined below) as shall have been designated in writing prior to the Closing by Purchaser to Seller pursuant to Section 5.12; and
- (g) Seller shall deliver or cause to be delivered to Purchaser a certificate duly executed on behalf of Purchaser as described in Section 6.2(d).

2. REPRESENTATIONS AND WARRANTIES REGARDING SELLER AND THE SHARES

Seller hereby represents and warrants to Purchaser that, except as set forth in the Disclosure Schedule dated as of the date of this Agreement and delivered by Seller to Purchaser (the **Seller Disclosure Schedule**):

2.1 Organization; Power and Qualification

Seller is duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority and possesses all government franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to carry on its business as currently conducted, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, has not had or would not have a Company Material Adverse Effect.

2.2 Authority; Execution and Delivery; Enforceability

Seller has full corporate power and authority to execute, deliver and perform its obligations under the terms of this Agreement and to consummate the Acquisition and the other transactions contemplated by this Agreement. The execution and delivery by Seller of this Agreement and the consummation by Seller of the Acquisition and the other transactions contemplated by this Agreement have been duly authorized by all necessary corporate action. Seller has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by Purchaser, this Agreement constitutes, its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject as to enforcement, (a) to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally and (b) to general equitable principles.

2.3 No Conflicts; Consents

The execution and delivery by Seller of this Agreement do not and the consummation of the Acquisition and the other transactions contemplated by this Agreement and compliance by Seller with the terms of this Agreement will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or result in the creation of any Lien (as defined below) under any provision of (a) the certificate of incorporation or by-laws of Seller, or (b) any judgment, order, decree, decision, writ or injunction issued by any Government Entity (as defined below) (**Judgment**) or United States federal, state, local or foreign law, statute, ordinance, rule or regulation or entered into by any Government Entity (**Applicable Law**) applicable to Seller, other than, in the case of this clause (b), any such items as, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. No consent, approval, license, permit, order or authorization (**Consent**) of, or registration, declaration or filing with, any United States federal, state, local or foreign government or any court of competent jurisdiction, administrative agency or commission or other government authority (a **Government Entity**) is required to be obtained or made by Seller in connection with the execution, delivery and performance of this Agreement or the consummation of the Acquisition or the other transactions contemplated by this Agreement, other than (i) compliance with and any filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the **HSR Act**) and (ii) filings with those state public utility control or public service commissions or similar or other state regulatory bodies set forth on Section 2.3 of the Seller Disclosure Schedule (the **Other Regulatory Approvals**).

2.4 Litigation

There are not any (a) outstanding Judgments against or affecting Seller, (b) proceedings pending or, to the knowledge of Seller, threatened against or affecting Seller or (c) investigations by any Government Entity that are pending or, to the knowledge of Seller, threatened against or affecting Seller that, in each case, individually or in the aggregate, have had or would have a Company Material Adverse Effect.

2.5 Compliance with Applicable Law

Seller has complied in all respects with and is in compliance in all respects with all Applicable Law, except for instances of noncompliance that, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect.

2.6 Brokers

Except for Greenhill & Co., Inc., no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Acquisition or the other transactions contemplated by this Agreement based upon arrangements made by or on behalf of Seller.

2.7 The Shares

Seller has good and valid title to and owns the Shares free of any "adverse claim" (within the meaning of Section 8-102(1) of the UCC). Without limitation of the foregoing, (a) the Shares are owned directly by Seller and are not subject to any liens, claims, charges, mortgages, security interests, pledges, reversions or other property interests in favor of persons other than Purchaser and (b) the Shares are not subject to, and Seller is not party to or otherwise bound by, any options, voting proxies, other voting arrangements, arrangements to sell, assign or transfer, preemptive, subscription, call, put or other similar rights relating to the Shares (such rights described in clauses (a) and (b), **Encumbrances**), other than those arising from acts of Purchaser and its affiliates.

3. REPRESENTATIONS AND WARRANTIES REGARDING COMPANY AND THE SUBSIDIARIES

Seller hereby represents and warrants to Purchaser that, except as set forth in the Seller Disclosure Schedule:

3.1 Organization and Standing; Books and Records

- (a) Each of Company and the Subsidiaries (as defined below) is a corporation duly incorporated, validly existing and, to the extent applicable, in good standing under the laws of its jurisdiction of organization. Section 3.1(a) of the Seller Disclosure Schedule lists the Subsidiaries and their respective jurisdictions of organization. Each of Company and the Subsidiaries has full corporate power and authority and possesses all government franchises, certificates, consents, licenses, permits, authorizations and approvals necessary to enable it to own, operate, lease or otherwise hold the properties and assets now owned, operated, leased or otherwise held by it and to carry on its businesses as they have been and are currently conducted, other than such franchises, certificates, consents, licenses, permits, authorizations and approvals the lack of which,

individually or in the aggregate, has not had or would not have a Company Material Adverse Effect (as defined below). Each of Company and the Subsidiaries is duly qualified and in good standing, to the extent applicable, to do business as a foreign corporation in each jurisdiction in which the conduct or nature of its business or the ownership, operation, leasing or holding of its properties makes such licensing or qualification necessary, except for such failures to be so qualified, licensed or in good standing as, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. Section 3.1(a) of the Seller Disclosure Schedule sets forth a list of the jurisdictions in which Company and each Subsidiary is doing business as a foreign corporation. **Company Material Adverse Effect** means any material adverse effect (i) on the business, financial condition, assets and liabilities or results of operations of Company and the Subsidiaries, taken as a whole, other than any such effect resulting from (A) changes in Applicable Law or generally accepted accounting principles in the United States (**GAAP**) or the enforcement or interpretation thereof, (B) the announcement of the execution of this Agreement or the consummation of the Acquisition or the other transactions contemplated by this Agreement, (C) any action taken by the parties that is expressly permitted by the terms of this Agreement or to which Purchaser has consented in writing, (D) changes in general economic or political conditions, including changes in interest rates and the performance of the equity markets as a whole or (E) changes generally affecting the industries in which Company and the Subsidiaries operate (including reductions in consumer demand or reductions in supply sources as a result of climatic conditions that are above or below historical averages in the watersheds or in the areas serviced by Company or any Subsidiary) (provided, in the cases of clauses (A), (D) or (E), such changes do not disproportionately adversely affect Company and the Subsidiaries, taken as whole, relative to other similarly situated businesses), (ii) the ability of Seller to perform its obligations under this Agreement in a timely fashion or (iii) on the ability of Seller to consummate the Acquisition and the other transactions contemplated hereby in a timely fashion, including the ability to obtain the Other Regulatory Approvals.

- (b) **Subsidiaries** (each, a **Subsidiary**) means those entities listed on Section 3.1(b) of the Seller Disclosure Schedule. None of the Retained Entities (as defined below) shall be deemed Subsidiaries.
- (c) **Retained Entities** shall mean any and all corporations, partnerships, limited liability companies, joint ventures, associations and any other legal entities of which Seller or Company, owns, or previously owned, directly or indirectly, or has rights to acquire, directly or indirectly, more than 50 percent of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity, other than the Subsidiaries. The Retained Entities shall include those entities listed on Section 3.1(c) of the Seller Disclosure Schedule.
- (d) Section 3.1(d) of the Seller Disclosure Schedule contains true and complete copies of (i) the certificate of incorporation and by-laws, each as amended to date, of Company and (ii) the comparable governing instruments, each as amended to date, of each Subsidiary.

3.2 Capital Stock of Company and the Subsidiaries

The authorized capital stock of Company consists of 1,000 shares of common stock, par value U.S.\$0.01 per share, of which 100 shares, constituting the Shares, are issued and outstanding. Except for the Shares, there are no shares of capital stock or other equity securities of Company issued, reserved for issuance, held by Company as treasury stock or outstanding. Section 3.2 of the Seller Disclosure Schedule lists the authorized capital stock, the outstanding capital stock and

the record and beneficial owners of outstanding capital stock of each Subsidiary. The Shares are duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, warrant, call option, right of first refusal, preemptive right, subscription right or any similar right under the certificate of incorporation or by-laws of Company or any Contract (as defined below) to which Company or Seller is a party or otherwise bound. Company has good and valid title, directly or through one or more wholly owned subsidiaries, to all the outstanding shares of capital stock of each Subsidiary, free and clear of all Encumbrances. All the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable and not subject to or issued in violation of any purchase option, warrant, call option, right of first refusal, preemptive right, subscription right or any similar right under the certificate of incorporation or by-laws of such Subsidiary or any Contract to which such Subsidiary is a party or otherwise bound. There are not any bonds, debentures, notes or other indebtedness of Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of Shares may vote (**Voting Company Debt**). There are not any options, warrants, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts, arrangements or undertakings of any kind to which Company or any Subsidiary is a party or by which any of them is bound (a) obligating Company or any Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exercisable for or exchangeable into any capital stock of or other equity interest in, Company or any Subsidiary or any Voting Company Debt, (b) obligating Company or any Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (c) that give any person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of Shares. There are not any outstanding contractual obligations of Company or any Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of Company or any Subsidiary. Neither Company nor any Subsidiary owns any equity interest in any entity (other than the Subsidiaries or, prior to Closing, the Retained Entities).

3.3 No Conflicts; Consents

The execution and delivery by Seller of this Agreement do not and the consummation of the Acquisition and the other transactions contemplated by this Agreement and compliance by Company with the terms of this Agreement will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or result in the creation of any Lien (as defined below) or Encumbrance upon any of the properties or assets of Company or any Subsidiary under, any provision of (a) the certificate of incorporation or by-laws of Company or any Subsidiary, (b) any contract, agreement or other legally binding arrangement, whether written or oral (a **Contract**) to which Company or any Subsidiary is a party or by which any of their respective properties or assets is bound or (c) any Judgment or Applicable Law applicable to Company or any Subsidiary or their respective properties or assets, other than, in the case of clauses (b) and (c), any such items that, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. No Consent of any third party, or registration, declaration or filing with, any Government Entity, is required to be obtained or made by Company or any Subsidiary in connection with (i) the execution, delivery and performance of this Agreement or the consummation of the Acquisition or the other transactions contemplated by this Agreement or (ii) the ownership by Purchaser of Company following the Closing, other than (A) compliance with and any filings required under the HSR Act, (B) the

Other Regulatory Approvals, except, in each case, for such Consents, registrations, declarations or filings the failure to make or obtain, would not, individually or in the aggregate, have a Company Material Adverse Effect.

3.4 Financial Statements

- (a) Section 3.4 of the Seller Disclosure Schedule includes (i) audited consolidated financial statements of Company, including audited consolidated balance sheets as of March 31, 2005 (the **Balance Sheet**) and March 31, 2004 and audited consolidated statements of income, statements of common stockholder's equity and statements of cash flows for the years ended March 31, 2005 and 2004, (ii) unaudited internal consolidating financial statements of Company, including unaudited internal consolidating balance sheets as of December 31, 2005 and unaudited internal consolidating statements of income, statements of common stockholder's equity and statements of cash flows for the nine months ended December 31, 2005, (iii) audited financial statements, including audited balance sheets as of December 31, 2004 and 2003 and audited statements of income, statements of common stockholder's equity and statements of cash flow for the years ended December 31, 2004 and 2003, of each of Aquarion Water Company of Connecticut, Aquarion Water Company of New York, Aquarion Water Company of Sea Cliff, Aquarion Water Company of Massachusetts and Aquarion Water Company of New Hampshire (such Subsidiaries, the **Utility Subsidiaries**) and unaudited financial statements, including unaudited balance sheets as of December 31, 2005 and unaudited statements of income, statements of common stockholders' equity and statements of cash flow for the year ended December 31, 2005 of each Utility Subsidiary, (iv) audited financial statements, including audited balance sheets as of December 31, 2004 and 2003 and audited statements of income, statements of common stockholder's equity and statements of cash flow for the years ended December 31, 2004 and 2003, of Aquarion Water Capital of Massachusetts and (v) unaudited financial statements, including unaudited balance sheets as of December 31, 2005 and unaudited statements of income, statements of common stockholder's equity and statements of cash flow for the year ended March 31, 2005, and the nine months ended December 31, 2005 of Aquarion Safety Valve Company (together with Aquarion Water Capital of Massachusetts, the **Other Subsidiaries**) and unaudited financial statements, including unaudited balance sheets as of December 31, 2005 and unaudited statements of income, statements of common stockholders' equity and statements of cash flow for the year ended December 31, 2005 for each Other Subsidiary. The financial statements referred to in clauses (i) and (ii) are referred to in this Agreement as the **Company Financial Statements**; the financial statements referred to in clause (iii) are referred to in this Agreement as the **Utility Financial Statements**; and the financial statements referred to in clauses (iv) and (v) are referred to in this Agreement as the **Other Financial Statements**. The Company Financial Statements, the Utility Financial Statements and the Other Financial Statements are collectively referred to in this Agreement as the **Financial Statements**. The Financial Statements (and following their delivery, the financial statements contemplated to be delivered to Purchaser pursuant to Section 5.17) have been prepared in conformity with GAAP applied consistently through the periods involved (except in each case as described in the notes thereto) and on that basis fairly present in all material respects (subject, in the case of the unaudited interim statements, to normal, recurring year-end audit adjustments) the financial condition, results of operations and cash flows of Company, a Utility Subsidiary or the Other Subsidiary, as the case may be, as of the respective dates thereof and for the respective periods indicated.
- (b) Company and the Subsidiaries do not have any liabilities or obligations except (i) as disclosed, reflected or reserved against (A) in the Balance Sheet and the notes thereto (in the case of Company), (B) the applicable audited balance sheet as of December 31, 2004 included in Utility

Financial Statements (in the case of each Utility Subsidiary), (C) the unaudited balance sheet as of March 31, 2005 included in the Other Financial Statements (in the case of Aquarion Safety Valve Company) or (D) the audited balance sheet as of December 31, 2004 included in the Other Financial Statements (in the case of Aquarion Water Capital of Massachusetts, (ii) for liabilities and obligations incurred in the ordinary course of business consistent with past practice since the date of the applicable Financial Statements and not in violation of this Agreement and that, individually or in the aggregate, do not have and would not have a Company Material Adverse Effect, (iii) in connection with the negotiation, execution, delivery or performance of this Agreement, (iv) for Taxes (as defined below) or (v) as, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect.

- (c) Section 3.4(c) of the Seller Disclosure Schedule sets forth all Indebtedness, including the respective amounts thereof outstanding, of Company and its Subsidiaries (other than Guarantees by Company or any Subsidiary of Indebtedness of Company or any Subsidiary) as of January 1, 2006. During the period from January 1, 2006 to the date of this Agreement, neither Company nor any Subsidiary has incurred any Indebtedness other than in the ordinary course and in a manner substantially consistent with the Forecast (as defined below). **Indebtedness** means all of Company's or any Subsidiary's, as the case may be, (i) obligations for borrowed money (including reimbursement and all other direct or contingent obligations with respect to surety bonds, letters of credit and bankers' acceptances, whether or not matured), (ii) obligations evidenced by notes, bonds, debentures or similar instruments or to pay the deferred purchase price of property or services, (iii) indebtedness created or arising under any conditional sale or secured by any Lien on any property or asset owned or held by Company or any Subsidiary, as the case may be, whether or not such indebtedness shall have been assumed by Company or any Subsidiary or is limited in recourse, (iv) obligations under leases that have been or should be, in accordance with GAAP, recorded as capital leases of Company or any Subsidiary, as the case may be, (v) all interest rate and currency swaps, collars and similar agreements or hedging devices under which payments are obligated to be made by Company or any Subsidiary, as the case may be, and (vi) all Guarantees by Company or any Subsidiary in respect of any of the foregoing. **Guarantee** means, as to any person, (A) any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (2) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (3) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (4) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (B) any Lien on any assets of such person securing any Indebtedness or other obligation of any other person, whether or not such Indebtedness or other obligation is assumed by such person. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing person in good faith.
- (d) Schedule 3.4(d) of the Seller Disclosure Schedule sets forth the aggregate cash balances of Company and the Subsidiaries as of December 31, 2005. During the period from December 31,

2005, to the date of this Agreement, Company and the Subsidiaries used cash in the ordinary course of business and in a manner substantially consistent with the Forecast.

3.5 Title to Property

- (a) Company and the Subsidiaries have good and valid title to, or valid and sufficient leaseholds in, all of their properties and assets, free and clear of all mortgages, liens, security interests, pledges, charges, easements, rights of way, options, claims, restrictions or encumbrances of any kind (each a **Lien** or collectively, **Liens**), except:
- (i) (A) mechanics', materialmen's, carriers', workmen's, repairmen's or other like Liens arising from or incurred in the ordinary course of business, (B) Liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business and (C) Liens for Taxes (as defined below) that are not yet due and payable or that may thereafter be paid without penalty;
 - (ii) Liens that secure obligations that are reflected as liabilities on the Balance Sheet or Liens the existence of which are referred to in the notes to the Balance Sheet; and
 - (iii) other imperfections of title or encumbrances, if any, that, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect (the Liens described in clauses (i), (ii) and (iii) of this Section 3.5(a), together with the Liens referred to in clauses (i) through (vi) of Section 3.6(a), are referred to collectively as **Permitted Liens**).
- (b) This Section 3.5 does not relate to real property or interests in real property (which are the subject of Section 3.6) or to Intellectual Property (as defined below) (which are the subject of Section 3.7).

3.6 Real Property

- (a) Company or one of the Subsidiaries has (x) good and marketable fee title to all real property owned (or reflected as owned on the Balance Sheet) by Company or any Subsidiary (**Owned Real Property**) and (y) valid title to the leasehold estate (as lessee) in all real property and interests in real property leased by Company or any Subsidiary as lessee or sublessee (**Leased Real Property**), and together with the Owned Real Property, **Real Property**, in each case free and clear of all Liens, except:
- (i) Liens for Taxes (as defined below) that are not yet due and payable or, if due and payable, are not delinquent and may thereafter be paid without penalty;
 - (ii) Liens that secure Indebtedness that is listed on Section 3.6(a)(i) of the Seller Disclosure Schedule;
 - (iii) easements, covenants, conditions, rights of way, defects of title and other similar restrictions of public record (other than such restrictions or defects in title that, individually or in the aggregate, do not materially adversely impair the use,

occupancy or value of the Real Property subject thereto as such is currently used for water utility purposes);

- (iv) zoning, building and other generally applicable land use restrictions (other than such restrictions that, individually or in the aggregate, do not materially adversely impair the use, occupancy or value of the Real Property subject thereto as such is currently used for water utility purposes);
 - (v) Liens that have been placed by a third party on the fee title of Leased Real Property or property over which Company or any Subsidiary has easement rights, and subordination or similar agreements relating thereto; and
 - (vi) Liens that, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect.
- (b) Neither Company nor any Subsidiary is obligated under, or a party to, any option, right of first refusal or other contractual right to sell, assign or dispose of any Owned Real Property or any portion thereof, other than in the ordinary course of business and consistent with past practice. The obligations of Company and the Subsidiaries with regard to all applicable covenants, easements and restrictions affecting the Owned Real Property have been and are being performed in a proper and timely manner by Company or a Subsidiary, as applicable, except as do not, individually or in the aggregate, materially adversely impair the use, occupancy or value of the Owned Real Property affected thereby as such is currently used for water utility purposes.
- (c) (i) Each lease or sublease for real property under which Company or any Subsidiary is a lessee or sublessee (each, a **Real Property Lease**) is in full force and effect and is the legal, valid and binding obligation of Company or such Subsidiary, enforceable against Company or such Subsidiary in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting rights of creditors generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at law or in equity), (ii) no notices of default under any Real Property Lease have been sent or received by Company or any Subsidiary and (iii) no event has occurred under any such lease or sublease that with notice, the passage of time or both would constitute a default by Company or any Subsidiary under a Real Property Lease, or, to the knowledge of Seller, by the landlord thereunder, except in each case, as, do not materially adversely impair the use, occupancy or value of the Real Property subject to a Real Property Lease as such is currently used for water utility purposes .
- (d) None of the rights or obligations of Company or any Subsidiary, or the lessor or sublessor, under any material Real Property Lease will be subject to termination, modification or acceleration of performance under any Real Property Lease as a result of the consummation of the Acquisition and the other transactions contemplated by this Agreement, except in each such case as would not materially adversely impair the ability of Company and the Subsidiaries to conduct their water utility operations.
- (e) Neither Company nor any Subsidiary has received any written notice from any Government Authority asserting any violation or alleged violation, and to the knowledge of Seller, there exists as of the date of this Agreement no violation, of Applicable Law with respect to any Real Property that remains uncured as of the date of this Agreement, except for such violations and alleged violations as, do not materially adversely impair the use, occupancy or value of the Real

Property subject thereto as such is currently used for water utility purposes. With respect to the Real Property, neither Company nor any Subsidiary has received any written notice of, nor to the knowledge of Seller does there exist as of the date of this Agreement, any pending, threatened or contemplated claims, causes of action, lawsuits or legal proceedings regarding the ownership, use or possession of the Real Property or any part thereof, including condemnation or similar proceedings, or any sale or other disposition of any Real Property or any part thereof in lieu of condemnation that, individually or in the aggregate, would reasonably be expected to materially adversely impair the use, occupancy or value of any Real Property as such is currently used for water utility purposes.

- (f) Company or one of the Subsidiaries has all easements and rights of way for the location of and access to their facilities, except for such failures as, individually or in the aggregate, do not materially adversely impair the use, occupancy or value of any Real Property as such is currently used for water utility purposes.

3.7 Intellectual Property

Company or one of the Subsidiaries owns, leases or licenses all Intellectual Property Rights (as defined below) used in or necessary for the conduct of the business of Company and the Subsidiaries (the **Company Intellectual Property**), except where the failure to so own, lease or license, individually or in the aggregate, has not had, or would not have a Company Material Adverse Effect. To the knowledge of Seller, (a) there has been no claim made against Company or any Subsidiary asserting the invalidity, misuse or unenforceability of any Company Intellectual Property, (b) there is no infringement or misappropriation of any Company Intellectual Property and (c) neither Company nor any Subsidiary has infringed or misappropriated any Intellectual Property Rights of any other person, in each case, except as, individually or in the aggregate, has not had or would not have a Company Material Adverse Effect. **Intellectual Property Rights** means any trademark, servicemark, registration therefor or application for registration therefor, trade name, patent, patent application, trade secret, know-how, copyright, copyright registration, application for copyright registration or similar type of proprietary right.

3.8 No Breaches or Defaults

Section 3.8 of the Seller Disclosure Schedule lists each Contract with annual obligations or revenues equal to or in excess of U.S.\$500,000 or that is otherwise material to Company and the Subsidiaries taken as a whole (the **Company Material Contracts**). Neither Company nor any Subsidiary is in breach or violation of or in default in the performance or observance of any provision of, and no event has occurred that, with the lapse of time or notice, would result in such a breach, violation or default by Company or any Subsidiary, and, to the knowledge of Seller, no third party is in breach or violation of or in default in the performance or observance of any provisions of, any Contract to which Company or any Subsidiary is a party, or by which any assets of Company or any Subsidiary may be bound, except, for such breaches, violations and defaults (a) as to which requisite waivers or consents have been obtained or (b) that, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. This Section 3.8 does not relate to any agreement with any Government Entity relating to environmental matters (which are the subject of Section 3.10) or employee benefit matters (which are the subject of Section 3.15).

3.9 Permits

Company and the Subsidiaries possess or meet the requirements for obtaining and have timely applied for all licenses, permits, authorizations and approvals (**Permits**) to own or hold under lease and operate their respective assets and to conduct the business of Company and the Subsidiaries as currently conducted, other than such Permits the absence of which, individually or in the aggregate, has not had or would not have a Company Material Adverse Effect. The Permits described in the preceding sentence, the **Company Permits**. Each Company Permit is in full force and effect, except for such failures to be in full force and effect as, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect. Neither Company nor any Subsidiary has received any written notice of termination or non-renewal of any Company Permit. Company and the Subsidiaries are and have been in compliance with all Company Permits, except for such instances of non-compliance as, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect. To the knowledge of Seller, as of the date of this Agreement, no material capital expenditure is required to achieve or maintain compliance with any Company Permit, other than those capital expenses listed in the Forecast (as defined below).

3.10 Environmental Matters

Except as, individually or in the aggregate, has not had or would not have a Company Material Adverse Effect:

- (a) Each of Company and the Subsidiaries is and has since March 31, 2002 been in compliance with all applicable Environmental Laws (as defined below).
- (b) Each of Company and the Subsidiaries possesses all Company Permits required under any applicable Environmental Law. Each such Company Permit is in full force and effect and, except as set forth in Section 3.10(b) of the Seller Disclosure Schedule, is capable of being transferred to Purchaser, by operation of law or otherwise, or remaining with Company or the relevant Subsidiary, as applicable, in connection with the consummation of the transactions contemplated by this Agreement. Neither Company nor any Subsidiary has received any notice of termination or non-renewal of any Company Permit. To the knowledge of Seller, no material capital expense is required to achieve or maintain compliance with any Company Permit, other than those capital expenses listed in the Forecast.
- (c) There are no pending or, to the knowledge of Seller, threatened claims, suits, actions, arbitrations, hearings, investigations, proceedings or other causes of action or Judgments against Company or any Subsidiary, nor has Seller received any written notice alleging that Company or any Subsidiary is in violation of or liable under any Environmental Law.
- (d) Neither Company nor any Subsidiary has received written notice that it has been identified as a potentially responsible party in connection with any Owned Real Property, Leased Real Property or any other property pursuant to the CERCLA (as defined below) or any similar or analogous Environmental Law.
- (e) Seller has provided Purchaser copies of or otherwise made available to Purchaser all environmental reports, studies, investigations and related materials in its possession or in

the possession of Company or any Subsidiary in connection with the current and former Owned Real Property and Leased Real Property and operations of Company and the Subsidiaries.

- (f) To the knowledge of Seller, no polychlorinated biphenyls, friable asbestos-containing materials, mold, urea-formaldehyde or radioactive materials are located on any Owned Real Property or Leased Real Property, except in compliance with applicable Environmental Laws.
- (g) No Hazardous Substances have been Released at, on, under or from any Real Property or, to the knowledge of Seller, any real property formerly owned or operated by Company or any Subsidiary under circumstances requiring notification to any Government Entity or requiring remediation under Environmental Law; and to the knowledge of Seller, no Hazardous Substances Released at, on, under or from any nearby properties have migrated or would reasonably be expected to migrate onto or under any Real Property or, to the knowledge of Seller, any real property formerly owned or operated by the Company or any Subsidiary Real Property under circumstances requiring notification to any Government Entity or requiring remediation under Environmental Law.
- (h) Neither Company nor any Subsidiary has agreed to assume and has not assumed by operation of law any environmental liability of any other person.
- (i) This Section 3.10 contains the only representations and warranties relating to environmental matters contained in this Agreement.
- (j) For purposes of this Agreement:

The term **Environmental Laws** means any and all Applicable Laws, Permits, or common law in effect as of the date of this Agreement relating to the protection, remediation, restoration or preservation of the environment, natural resources or worker health as impacted by exposure to Hazardous Substances, including Applicable Laws, Permits or common law relating to: (i) the generation, use, treatment, recycling, storage, transportation, management or disposal of Hazardous Substances; (ii) any discharge, Release or emission to or the contamination or pollution of any environmental medium, including discharges, releases or emissions to air (including indoor air), water (including groundwater, surface water and wetlands), surface or subsurface soil or sediment; (iii) the manufacture distribution, disposal or recycling of chemical substances and mixtures; (iv) responsibility or liability for environmental conditions, including natural resource damages; or (iv) contamination or pollution of any environmental medium.

The term **Hazardous Substances** means (A) any substance, material or waste (regardless of physical form or concentration) regulated, listed, or identified under any Environmental Law as hazardous, toxic, ignitable, reactive, corrosive, dangerous, harmful or injurious; or (B) any other substance, material or waste (regardless of physical form or concentration) which is hazardous, dangerous, damaging or toxic to living things or the environment. Hazardous Substances include, without limitation, hazardous substances, pollutants and contaminants as defined by the Comprehensive Environmental Response, Compensation and Liability Act (**CERCLA**) as has been amended from time to time and regulations promulgated pursuant thereto; solid waste, hazardous waste and hazardous constituents as defined by the Resource Conservation and Recovery Act

(**RCRA**) as has been amended from time to time, and regulations promulgated pursuant thereto; hazardous materials as defined in the Hazardous Materials Transportation Act as has been amended from time to time and regulations promulgated pursuant thereto; toxic substances as defined by the Clean Water Act as has been amended from time to time and regulations promulgated pursuant thereto; hazardous chemicals as defined by the Occupational Safety and Health Act, radioactive materials, asbestos-containing materials, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum byproducts and derivatives, radon gas, lead, and lead-based paint.

The term **Release** means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment of any Hazardous Substance.

3.11 Water Quality

The drinking water supplied by each Utility Subsidiary to its customers is and has been in compliance with all applicable United States federal and state drinking water standards, except for such failures as, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect.

3.12 Insurance

The material policies of fire and casualty, liability and other forms of insurance maintained, as of the date of this Agreement, with respect to Company and the Subsidiaries and their respective assets and properties are listed in Section 3.12 of the Seller Disclosure Schedule (the **Company Insurance Policies**). All Company Insurance Policies are in full force and effect in all material respects, all premiums due and payable thereon have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending prior to the Closing Date or as would not, individually or in the aggregate, have a Company Material Adverse Effect), and no notice of cancellation or termination has been received with respect to any Company Insurance Policy that has not been replaced on substantially similar terms prior to the date of such cancellation or termination. The insurance companies that have issued the Company Insurance Policies have not denied coverage for, or reserved their rights with respect to any, material claim reported to them by Company or any of the Subsidiaries. The transactions contemplated by this Agreement will not result in the termination of, or loss of coverage under, any of the Company Insurance Policies.

3.13 Taxes

- (a) For purposes of this Agreement:

Code means the Internal Revenue Code of 1986, as amended.

Income Tax or **Income Taxes** means any and all Taxes (as defined below) in whole or in part based upon, measured by or calculated with respect to net income or receipts (including, but not limited to, any capital gains and alternative minimum taxes).

Income Tax Returns means any and all Tax Returns (as defined below) relating to Income Taxes.

IRS means the Internal Revenue Service of the United States.

Post-Closing Period means any taxable period or portion thereof that begins after the Closing Date; if a taxable period begins on or prior to the Closing Date and ends after the Closing Date, then the portion of the taxable period that begins immediately after the Closing Date shall constitute a Post-Closing Period.

Pre-Closing Period means any taxable period or portion thereof that ends on or prior to the Closing Date; if a taxable period begins on or prior to the Closing Date and ends after the Closing Date, then the portion of the taxable period that ends on and includes the Closing Date shall constitute a Pre-Closing Period.

Regulations means the Treasury Regulations (including Temporary Regulations) promulgated by the United States Department of Treasury with respect to the Code or other federal tax statutes.

Straddle Period means any taxable period that begins before and ends after the Closing Date.

Tax or **Taxes** (and with correlative meaning, **Taxation**) means any tax and any duty, impost, levy custom, fee, or government charge or other like assessment (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto), imposed by any Government Entity or other taxing authority, including Income Tax, alternative minimum tax, national insurance and social security contributions, capital gains tax, value added tax, customs, excise and import duties, franchise tax, windfall or other profits taxes, gross receipts tax, property tax, sales tax, use tax, occupation taxes, capital stock tax, payroll tax, employment tax, worker's compensation, unemployment tax, net worth tax, taxes in the nature of withholding, *ad valorem* tax, stamp tax, transfer tax, or gains taxes or escheat or unclaimed property.

Tax Return means any return, report, declaration, form, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto and including any amendment thereof.

- (b) Except as, individually or in the aggregate, has not had or would not have a Company Material Adverse Effect:
- (i) Each of Company and its Subsidiaries has timely filed or caused to be filed with the appropriate Tax authority all Tax Returns required to be filed by it and all such Tax Returns are true, correct and complete. Each of Company and its Subsidiaries has timely paid or caused to be paid all Taxes due with respect to the taxable periods covered by such Tax Returns and all other Taxes otherwise due and payable (excluding any Taxes that Company or any of its Subsidiaries are contesting in good faith in appropriate proceedings and for which adequate reserves have been taken to the extent so required under GAAP).
 - (ii) There is no written nor, to the knowledge of Seller, proposed, threatened or contemplated claim of deficiency, audit examination, refund litigation, proposed adjustment or matter in controversy with any Tax authority with respect to any Taxes of Company or any of its Subsidiaries.
 - (iii) No liens for Taxes exist with respect to any of the assets or properties of Company or any of its Subsidiaries except for statutory liens for Taxes not yet

due or payable and for liens for Taxes that Company or any Subsidiary are contesting in good faith in appropriate proceedings and for which adequate reserves have been taken to the extent so required under GAAP.

- (iv) Each of Company and the Subsidiaries has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.
- (v) No statute of limitations will remain open as a result of it having been waived or extended with respect to the payment or collection of Taxes for Company or any Subsidiary.
- (vi) Neither Company nor any Subsidiary has been a party to, or a material advisor with respect to, any reportable transaction, within the meaning of Treas. Reg. 1.6011-4 or any predecessor provision.
- (vii) Neither Company nor any Subsidiary is a party to, bound by or has any obligation under any Tax allocation, Tax sharing, Tax indemnity or similar agreement, arrangement or understanding.
- (viii) Company does not own or have any direct interest in any real property located in Connecticut that has been classified as farm land, forest land or as open space land within the meaning of Conn. Gen. Stat. §12-6381 and §12-638m.

3.14 Litigation

Section 3.14 of the Seller Disclosure Schedule lists each pending or, to the knowledge of Seller, threatened claim, suit, action, arbitration, hearing, investigation, proceeding or other cause of action by or before any person, including any Government Entity, against or affecting Company or any Subsidiary or any of their respective assets, properties, operations or businesses, that would reasonably be expected to result in damages exceeding U.S.\$500,000 or to have a Company Material Adverse Effect. Neither Company nor any Subsidiary is a party or subject to or in default under any Judgment, other than for such Judgments or defaults that, individually and in the aggregate, have not had or would not have a Company Material Adverse Effect.

3.15 Benefit Plans

- (a) Section 3.15(a) of the Seller Disclosure Schedule lists each "employee pension benefit plan" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended (**ERISA**)) (a **Pension Plan**), "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) (a **Welfare Plan**), and each other written or oral plan, arrangement, agreement or policy relating to stock options, stock purchases, compensation, cash or equity incentive, deferred compensation, employment, severance, consulting, retirement, fringe benefits or other employee benefits, in each case maintained or contributed to, or required to be maintained or contributed to, by Company or any Subsidiary for the benefit of any present or former officers, employees, agents, directors or independent contractors of Company or any Subsidiary (all the foregoing, **Benefit Plans**). Seller has made available to Purchaser true and complete copies of:
 - (i) each Benefit Plan (or, if oral, a summary thereof);

- (ii) the three most recent annual reports on Form 5500 (including all schedules and attachments thereto) filed with respect to each Benefit Plan (if any such report was required by Applicable Law);
- (iii) the most recent summary plan description (or similar document) for each Benefit Plan for which such a summary plan description is required by Applicable Law or was otherwise provided to plan participants or beneficiaries and any subsequent summaries of material modification;
- (iv) each trust agreement and insurance or annuity contract or other funding or financing arrangement relating to any Benefit Plan;
- (v) handbooks, manuals, collective bargaining agreements and similar documents governing employment and benefits policies, procedures and practices;
- (vi) each material Contract relating to any Benefit Plan with any service providers and with insurers providing liability insurance for fiduciaries and other parties in interest or bonding; and
- (vii) the most recent annual audit and accounting of plan assets for each funded Benefit Plan.

Each such Form 5500 and each such summary plan description (or similar document) was as of its date and is true and complete in all material respects.

- (b) Each Benefit Plan has been administered in all material respects in compliance with its terms, the applicable provisions of ERISA, the Code, all other Applicable Law and the terms of all applicable collective bargaining agreements. All material reports, returns and similar documents with respect to the Benefit Plans required to be filed with any Government Entity or distributed to any Benefit Plan participant have been duly and timely filed or distributed and all reports, returns and similar documents filed or distributed were true and complete in all material respects. There has been no notice received by Company or any Subsidiary of any investigations by any Government Entity, and there are no termination proceedings or other claims (except routine claims for benefits payable under the Benefit Plans) or proceedings pending or, to the knowledge of Seller and Company, threatened by any Government Entity, participant, beneficiary, fiduciary or other person against, or brought on behalf of, any Benefit Plan or against the Benefit Plan sponsor, the Benefit Plan administrator or any fiduciary of any Benefit Plan involving any aspect of any Benefit Plan, nor are there any facts that would reasonably be expected to form the basis of such claim or lawsuit, in each case, that would reasonably be expected to result in any material liability.
- (c) There have been no "prohibited transactions" (as defined in Section 4975 of the Code or in Part 4 of Subtitle B or Title I of ERISA) with respect to any Benefit Plan for which Company or any Subsidiary has incurred or would reasonably be expected to incur any liability and no Benefit Plan has been the subject of a "reportable event" (as defined in Section 4043 of ERISA) for which notice has not been waived by the regulations issued under such section.
- (d) All contributions to the Benefit Plans that may have been required to be made in accordance with the terms of the Benefit Plans, Applicable Law and any applicable collective bargaining agreement have been timely made.

- (e) Each Benefit Plan that is a Pension Plan (a **Company Pension Plan**) that is intended to be a tax-qualified plan has been the subject of a determination letter from the IRS to the effect that such Company Pension Plan and related trust is qualified and exempt from United States federal income taxes under Sections 401(a) and 501(a), respectively, of the Code; such determination letter applies to all plan document qualification requirements for which the applicable remedial amendment period under Section 401(b) of the Code has closed, any amendments required by such determination letter were made as and when required by such determination letter and nothing has occurred, whether by action or failure to act, that would reasonably be expected to cause the loss of such qualification. Company has made available to Purchaser a copy of the most recent determination letter received with respect to each Company Pension Plan for which such a letter has been issued, as well as a copy of any pending application for a determination letter.
- (f) Company has furnished to Purchaser the most recent actuarial report or valuation with respect to each "defined benefit plan" (as defined in Section 3(35) of ERISA) (**Defined Benefit Plan**) and each funded welfare plan. The information supplied to the plan actuary by Company and any Subsidiary for use in preparing those reports or valuations was complete and accurate in all material respects and Seller has no reason to believe that the conclusions expressed in those reports or valuations are incorrect as of the date of this Agreement, there has been no material adverse change in the funding status of any such Plan as reflected in such actuarial report or valuation.
- (g) No Benefit Plan is a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA) or a plan described in Section 4063(a) of ERISA. There has been no withdrawal from, and neither Company nor any Subsidiary has any actual or contingent withdrawal liability with respect to, any multiemployer plan or any plan described in Section 4063(a) of ERISA to which Company, any Subsidiary or any ERISA Affiliate has ever contributed or been required to contribute. **ERISA Affiliate** means any trade or business, whether or not incorporated, that is or was treated as a single employer with Company or any Subsidiary within the meaning of Sections 414(b), (c), (m) or (o) of the Code.
- (h) No employee of Company or any Subsidiary shall be entitled to any additional benefits or compensation or any acceleration of the time of payment or vesting of any benefits or compensation under any Benefit Plan as a result of the transactions contemplated by this Agreement, either separately or together with any other event.
- (i) No amount that will be received (whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement (either separately or together with any other event) by any employee, officer, agent or director of Company or any of its affiliates who is a "disqualified individual" (as such term is defined in Section 280G(c) of the Code and Treasury Regulations thereunder) under any employment, severance or termination agreement, other compensation arrangement or Benefit Plan currently in effect will be characterized as an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code).
- (j) No unsatisfied liabilities to participants, the IRS, the United States Department of Labor (**DOL**), the Pension Benefit Guaranty Corporation (**PBGC**), or to any other person or entity have been incurred as a result of the termination of any Company Pension Plan maintained by Company, any Subsidiary or any ERISA Affiliate, and no Pension Plan maintained by Company, any Subsidiary or any ERISA Affiliate for which Company or any Subsidiary would reasonably be

expected to have any material liability that is subject to the minimum funding requirements of Part 3 of Subtitle B of Title I of ERISA or subject to Section 412 of the Code has incurred any "accumulated funding deficiency" within the meaning of Section 302 of ERISA or Section 412 of the Code, and there has been no waived funding deficiency within the meaning of Section 303 of ERISA or Section 412 of the Code in respect of any Company Pension Plan.

- (k) Each ERISA Affiliate has complied in all material respects with the "continuation coverage requirements" of "group health plans" as set forth in Section 4980B of the Code and Part 6 of Subtitle B of Title I of ERISA (sometimes referred to as "COBRA") or of the obligations (sometimes referred to as "HIPAA") imposed by Section 9801 of the Code and Part 7 of Subtitle B of Title I of ERISA. Neither Company nor any Subsidiary would reasonably be expected to have any material liability with respect to any such Plan under Section 5000 of the Code.
- (l) Neither Company nor any Subsidiary is bound by any collective bargaining agreement or any other agreement or legally binding arrangement to maintain any Benefit Plan.
- (m) Each plan, agreement or other arrangement of Company or any Subsidiary, or to which Company or any Subsidiary is a party, providing for deferred compensation which is subject in whole or in part to the requirements of Section 409A of the Code has been administered in good faith compliance with the provisions of Section 409A of the Code and the guidance issued to date thereunder.
- (n) Neither Company nor any Subsidiary nor any ERISA Affiliate of the foregoing has used the services of workers provided by third party contract labor suppliers, temporary employees, "leased employees" (as that term is defined in Section 414(n) of the Code), or individuals who have provided services as independent contractors to an extent that would reasonably be expected to result in the disqualification of any of the Benefit Plans or the imposition of penalties or excise taxes with respect to the Benefit Plans by the IRS, the DOL or the PBGC.
- (o) Other than such continuation of benefit coverage under group health plans as is required by Applicable Law (as described in Section 3.15(k)), the cost of which is fully paid by the former employee or his or her dependent, neither Company nor any Subsidiary maintains retiree life or retiree health plans providing for continuing coverage for any employee or any beneficiary of an employee after the employee's termination of employment.

3.16 Absence of Changes or Events

Since March 31, 2005, other than as provided in or contemplated by this Agreement, Company and the Subsidiaries have conducted their business, in all material respects, in the ordinary course, and, except for the negotiation, execution and performance of this Agreement, there has not occurred any event, occurrence, fact, condition, change, development or effect that, individually or in the aggregate, has had or would have a Company Material Adverse Effect.

3.17 Compliance with Applicable Law

Company and the Subsidiaries have complied in all respects with and are in compliance in all respects with all Applicable Law, except for instances of noncompliance as, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. Since March 31, 2002, none of Seller, Company and the Subsidiaries has received any written communication or notice from any Government Entity that alleges that Company or a Subsidiary is not in

compliance with any Applicable Law, except for such communications or notices as, individually or in the aggregate, have not had and would not have a Company Material Adverse Effect. This Section 3.17 does not relate to matters with respect to Permits (which are the subject of Section 3.9), water quality (which is the subject of Section 3.11), environmental matters (which are the subject of Section 3.10), Taxes (which are the subject of Section 3.13) or employee benefit matters (which are the subject to Section 3.15).

3.18 Employee and Labor Matters

- (a) (i) There is not any labor strike, dispute, slowdown, work stoppage or lockout pending, or, to the knowledge of Seller, threatened, against Company or any Subsidiary, (ii) to the knowledge of Seller, there is no union organizational campaign in progress with respect to the employees of Company or any Subsidiary and (iii) there are not any unfair labor practice charges, grievances, complaints or other actions against Company or any Subsidiary pending, or, to the knowledge of Seller and Company, threatened, before the National Labor Relations Board or any other Government Entity. Section 3.18(a) of the Seller Disclosure Schedule lists each collective bargaining agreement, labor agreement, work rules or practices or other labor-related agreements or arrangements with any labor union, labor organization, trade union or works council to which Company or any Subsidiary is a party or by which Company or any Subsidiary is bound. Other than as pertaining to those employees and operations covered by the collective bargaining agreements set forth on Section 3.18(a) of the Seller Disclosure Schedule, no labor union, labor organization, trade union, works council, or group of employees of Company or any Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority.
- (b) Company and the Subsidiaries are and have been in compliance in all material respects with all Applicable Laws respecting employment and employment practices, including all laws respecting terms and conditions of employment, health and safety, wages and hours, child labor, immigration, employment discrimination, disability rights or benefits, equal opportunity, plant closures and layoffs, affirmative action, workers' compensation, labor relations, employee leave issues and unemployment insurance. There are no material complaints, charges, investigations or claims against Company or any Subsidiary pending, or to the knowledge of Seller, threatened to be brought or filed, by or with any Government Entity in connection with the employment of any employees, consultants or independent contractors of Company or any Subsidiary, including, without limitation, any claim relating to employment discrimination, sexual harassment, equal pay and other employment related matters and Applicable laws.
- (c) No employee of Company or any Subsidiary is in any material respect in violation of any term of any employment agreement, nondisclosure agreement, common law nondisclosure obligation, fiduciary duty, non-competition agreement, restrictive covenant or other obligation to a former employer of any such employee relating (i) to the right of any such employee to be employed by Company or any Subsidiary or (ii) to the knowledge or use of trade secrets or proprietary information.
- (d) As of February 15, 2006, Company, the Utility Subsidiaries and the Other Subsidiaries did not have employees except as set forth (and identified by employing entity) on Section 5.6(a) of the Seller Disclosure Schedule.

- (e) Company and the Subsidiaries have complied in all material respects with the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2101 *et seq.*, and its corresponding regulations, and any similar state law, rule or regulation or local ordinance, rule or regulation, in each case in effect as of the date of this Agreement, providing for notification to employees affected by closing, relocation, sale of business, mass layoff or similar event (collectively, the **WARN Acts**) on account of closings, relocations, sales of businesses, mass layoffs or similar events occurring on or prior to the Closing and all related notices, payments, fines or assessments due to any Government Entity pursuant to such WARN Acts.

3.19 Regulation as a Utility

- (a) Each Utility Subsidiary is regulated as a public utility in the jurisdiction listed opposite the name of such Utility Subsidiary on Section 3.19(a) of the Seller Disclosure Schedule and is not otherwise subject to regulation as a public utility. Neither Company nor any Subsidiary is subject to regulation as a public utility or public service company (or similar designation) by any other Governmental Entity (other than those set forth in Section 2.3 of the Seller Disclosure Schedule). Company is not a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.
- (b) Section 3.19(b)(i) of the Seller Disclosure Schedule sets forth Seller's calculation of the rate base of each Utility Subsidiary as of December 31, 2005. Section 3.19(b)(ii) of the Seller Disclosure Schedule sets forth the rate base of each Utility Subsidiary that had been determined to be used and useful and allowable for rate-setting purposes in the most recent rate proceeding of such Utility Subsidiary. To the knowledge of Seller, as of the date of this Agreement, there have been no material historical rate base adjustments or disallowance of rate base for rate-setting purposes in respect of any Utility Subsidiary.

3.20 Transactions with Affiliates

Section 3.20 of the Seller Disclosure Schedule describes all categories of transactions, including outstanding Indebtedness, between Company and any Subsidiary, on one hand, and any affiliate of Kelda (other than Company or any Subsidiary), on the other hand, and lists, as of January 1, 2006, (a) all such outstanding Indebtedness and (b) all other transactions that are material to Company or any Subsidiary.

3.21 No Additional Representations

Except as expressly set forth in this Agreement, neither Seller, its representatives nor any other person has made any representation or warranty, expressed or implied, to Purchaser as to any matter relating to Company, the Subsidiaries or the Acquisition, including as to the accuracy or completeness of any information regarding Company or the Subsidiaries furnished or made available to Purchaser and its representatives, including any information, documents or material made available to Purchaser in any "data rooms," management presentations or in any other form in connection with the Acquisition or the other transactions contemplated by this Agreement.

4. REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller that except as set forth in the Disclosure Schedule dated as of the date of this Agreement and delivered by Purchaser to Seller (the **Purchaser Disclosure Schedule**):

4.1 **Organization; Power and Qualification**

Purchaser is duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has the corporate power and authority and possesses all government franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets and to carry on its business as currently conducted, other than such franchises, licenses, permits, authorizations and approvals the lack of which, individually or in the aggregate, has not had or would not have a Purchaser Material Adverse Effect. **Purchaser Material Adverse Effect** means any material adverse effect on (a) the ability of Purchaser to perform its obligations under this Agreement in a timely fashion or (b) the ability of Purchaser to consummate the Acquisition and the other transactions contemplated by this Agreement in a timely fashion, including the ability to obtain the Other Regulatory Approvals, in each case other than any action taken by the parties that is expressly permitted by the terms of this Agreement or to which Seller has consented in writing.

4.2 **Authority; Execution and Delivery; Enforceability**

Purchaser has full corporate power and authority to execute, deliver and perform its obligations under the terms of this Agreement and to consummate the Acquisition and the other transactions contemplated by this Agreement. The execution and delivery by Purchaser of this Agreement and the consummation by Purchaser of the Acquisition and the other transactions contemplated by this Agreement have been duly authorized by all necessary corporate action. Purchaser has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by Seller, this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject, as to enforcement, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally and to general equitable principles.

4.3 **No Conflicts; Consents**

The execution and delivery by Purchaser of this Agreement do not and the consummation of the Acquisition and the other transactions contemplated by this Agreement and compliance by Purchaser with the terms of this Agreement will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under or result in the creation of any Lien (as defined below) under any provision of (a) constituent documents of Purchaser or (b) any Judgment or Applicable Law applicable to Purchaser, other than, in the case of this clause (b), as, individually or in the aggregate, has not had or would not have a Purchaser Material Adverse Effect. No Consent of, or registration, declaration or filing with, any Government Entity is required to be obtained or made by Purchaser in connection with the execution, delivery and performance of this Agreement or the consummation of the Acquisition or the other transactions contemplated by this Agreement, other than (i) compliance with and any filings required under the HSR Act and (ii) the Other Regulatory Approvals.

4.4 **Litigation**

There are not any (a) outstanding Judgments against or affecting Purchaser or any of its subsidiaries, (b) proceedings pending or, to the knowledge of Purchaser, threatened against or affecting Purchaser or any of its subsidiaries or (c) investigations by any Government Entity that are pending or, to the knowledge of Purchaser, threatened against or affecting Purchaser or any of

its subsidiaries that, in any case, individually or in the aggregate, have had or would have a Purchaser Material Adverse Effect.

4.5 Compliance with Applicable Law

Purchaser and its subsidiaries have complied in all respects with and are in compliance in all respects with all Applicable Law, except for instances of noncompliance that, individually or in the aggregate, have not had or would not have a Purchaser Material Adverse Effect.

4.6 Brokers

No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Acquisition or the other transactions contemplated by this Agreement based upon arrangements made by or on behalf of Purchaser.

4.7 Availability of Funds

Purchaser will have cash available as of the Closing sufficient to enable it to pay the Purchase Price and consummate the Acquisition and the other transactions contemplated by this Agreement.

4.8 Investment Intent

Purchaser is acquiring the Shares for investment purposes only and not with a view to any public distribution thereof, and Purchaser represents that it will not offer to sell or otherwise dispose of the Shares so acquired by it in violation of any Applicable Law. Purchaser acknowledges that the Acquisition has not been registered under the Securities Act of 1933, as amended, and that the Shares may not be sold, transferred or offered for sale without registration under such act or an exemption therefrom. Purchaser is able to bear the economic risk of holding the Shares for an indefinite period and has knowledge and experience in financial and business matters such that it is capable of evaluating the risks of investment in the Shares.

4.9 Purchaser Acknowledgments

Purchaser has conducted its own independent investigation, review and analysis of the business, assets, liabilities, financial condition, results of operations and prospects of Company and the Subsidiaries. Purchaser acknowledges that it and its representatives have been permitted full and complete access to the books and records, facilities, equipment, Tax Returns, Contracts, insurance policies (or summaries thereof) and other properties and assets of Company and the Subsidiaries that it and its representatives have desired or requested to see or review, and that it and its representatives have had a full opportunity to meet with the officers and employees of Company and the Subsidiaries to discuss the business of Company and the Subsidiaries. In entering into this Agreement, Purchaser acknowledges that it has relied solely on such independent investigation and not on any factual representations of Seller and its representatives (other than those expressly set forth in the Agreement). Purchaser further (a) acknowledges that, should the Closing occur, Purchaser shall acquire the assets of Company and the Subsidiaries without any representation or warranty as to merchantability or fitness for any particular purpose, in an "as is" condition and on a "where is" basis, except as otherwise expressly represented or warranted in this Agreement and (b) agrees, to the fullest extent permitted by Applicable Law, that none of Seller, Company, the Subsidiaries or any of their representatives shall have any liability on any

basis based on information regarding Company or the Subsidiaries furnished or made available to Purchaser and its representatives, including any information, documents or material made available to Purchaser in any "data rooms," management presentations or in any other form in connection with the Acquisition or the other transactions contemplated by this Agreement, except that the foregoing limitations shall not apply (i) in the event of fraud or willful misrepresentation or (ii) to Seller insofar as Seller has made the express representations and warranties in this Agreement, but always subject to the limitations set forth in Article 8.

5. COVENANTS

5.1 Covenants Relating to Conduct of Business

- (a) Except as set forth on Section 5.1 of the Seller Disclosure Schedule or otherwise permitted or contemplated by the terms of this Agreement, from the date of this Agreement to the Closing, Seller shall cause the businesses of Company and the Subsidiaries to be conducted in the ordinary course consistent with past practice and, to the extent consistent therewith, use commercially reasonable efforts to keep intact their respective businesses, keep available the services of their current employees and preserve their commercial relationships; provided that Seller shall not be obligated to, directly or indirectly, provide any funds to Company or any Subsidiary; and provided further that Seller shall not cause or permit Company or any Subsidiary to incur liabilities or other obligations payable to, or generate any receivables payable to Kelda, Seller or any of their affiliates (other than Company and the Subsidiaries), except as otherwise expressly contemplated by this Section 5.1. In addition (and without limiting the generality of the foregoing), except as set forth on Section 5.1 of the Seller Disclosure Schedule or as otherwise permitted or expressly contemplated by the terms of this Agreement (including Section 5.14) or as set forth in Company's forecast (the **Forecast**), which is contained in Section 5.1 of the Seller Disclosure Schedule, Seller shall not permit Company or any Subsidiary to do any of the following without the prior written consent of Purchaser:
- (i) amend its certificate of incorporation or by-laws;
 - (ii) issue, deliver, sell, pledge or otherwise subject to any Encumbrance or Lien any shares of its capital stock, or any other voting securities or any securities convertible into any rights, warrants or options to acquire, any such capital stock, voting securities or convertible securities;
 - (iii) adopt or amend in any material respect any Benefit Plan (or any plan that would be a Benefit Plan if adopted) or enter into, adopt, extend (beyond the Closing Date), renew or amend any collective bargaining agreement or other Contract with any labor organization, union or association, except in each case as required by Applicable Law or required to comply with Section 409A of the Code after providing written notice to Purchaser;
 - (iv) (A) enter into, amend or modify any employment, severance, change in control, retention, termination or similar agreement or arrangement with, or grant any bonuses, salary increases, severance or termination pay to, any officer, director, consultant or employee of Company or any Subsidiary, (B) take any action to accelerate vesting or payment of any compensation or benefit under any Benefit Plan, or (C) except for any increases for which Seller shall be solely obligated, grant to any current or former director, executive officer, employee or consultant

any increase in compensation or benefits or grant or award any stock-based compensation (the increases set forth in this clause (C), **Seller Compensation Increases**), except, in each case, to or with employees of Company or any Subsidiary in the ordinary course of business consistent with past practice or as may be required under existing agreements;

- (v) incur or assume any liabilities, obligations or Indebtedness or Guarantee any such liabilities, obligations or Indebtedness of any other person (other than refinancing of existing Indebtedness in a manner substantially consistent with the Forecast with new Indebtedness that is prepayable without penalty), unless such liabilities, obligations or Indebtedness (A) are incurred or assumed in the ordinary course of business, (B) are capable of prepayment without penalty and (C) the proceeds of which are not used to pay any dividend to Seller but are exclusively used to fund Permitted Additional Capital Expenditures (as defined below);
- (vi) permit, allow or suffer any of its material assets to become subjected to any Lien or Encumbrance that would have been required to be listed on Section 3.5 or 3.6 of the Seller Disclosure Schedule if existing on the date of this Agreement;
- (vii) cancel any material Indebtedness (individually or in the aggregate) or waive, settle or discharge any material claims or rights;
- (viii) revoke or amend any material Tax election or make any change in any method of accounting or accounting practice or policy other than those required by GAAP;
- (ix) acquire by merging or consolidating with, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof;
- (x) acquire by purchasing a substantial portion of the assets or stock of any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire any assets that are, in any such case, either material, individually or in the aggregate, to Company and the Subsidiaries, taken as a whole or represent a value of U.S.\$500,000 or more;
- (xi) make or incur any capital expenditure that is individually, in excess of U.S.\$1 million or make or incur any such expenditures which, in the aggregate, are in excess of U.S.\$5 million (**Permitted Additional Capital Expenditures**);
- (xii) sell, lease, license or otherwise dispose of any of its assets that are material, individually or in the aggregate, to Company and the Subsidiaries taken as a whole or represent a value of U.S.\$500,000 or more;
- (xiii) declare, set aside or pay a dividend or make any other distribution in respect of any class of capital stock of Company or any Subsidiaries (other than dividends and distributions by any Subsidiary to Company or another Subsidiary) or redeem or otherwise reacquire any such capital stock; provided, however, that, the aggregate amount of dividends and other distributions payable by Company or any Subsidiary to Seller during the period from January 1, 2006 through the date of payment of such dividend or distribution shall not exceed the lower of (A)

those amounts set forth in the Forecast or (B) the sum of 90% of net income of each Utility Subsidiary (calculated in accordance with GAAP) during such period;

- (xiv) take any action that would reasonably be expected to result in any Company Material Adverse Effect;
 - (xv) file any voluntary petition for bankruptcy or liquidation;
 - (xvi) effectuate (1) a "plant closing" (as defined in the WARN Act) affecting any single site of employment or one or more facilities or operating units within any single site of employment of Company or any of the Subsidiaries; or (2) a "mass layoff" (as defined in the WARN Acts) at any single site of employment or one or more facilities or operating units within any single site of employment of Company or any of the Subsidiaries;
 - (xvii) enter into any transaction with Kelda, Seller or any of their affiliates (other than Company or any Subsidiary) other than in the ordinary course of business and consistent with past practice;
 - (xviii) other than in the ordinary course of business or in connection with any capital expenditures permitted under Section 5.1(a)(xi) and the amount of which does not exceed U.S.\$7.5 million per agreement or require performance for a term exceeding two years, amend or modify in any material respect, or renew (except on terms that are substantially similar to those in existence as of the date of this Agreement, together with other commercially reasonable terms) any Company Material Contract or enter into or adopt any new contract that if in existence on the date of this Agreement would be a Company Material Contract;
 - (xix) modify the respective operating budgets of Company or any Subsidiary in any manner that is inconsistent with the Forecast; or
 - (xx) authorize any of, or commit or agree, whether in writing or otherwise, to take or to do any of the foregoing actions.
- (b) Seller shall keep, or cause to be kept, in full force and effect (or replace with policies providing substantially similar coverage) through the close of business on the Closing Date, all Company Insurance Policies. As of the Closing, Seller shall, to the extent permitted, assign to Purchaser any and all assignable rights which Seller may have under such Company Insurance Policies covering claims relating to the period on or prior to the Closing Date.
- (c) Other than with respect to corporate governance matters, neither Seller nor Seller's direct or indirect parent companies, including Kelda, shall, without the prior written consent of Purchaser, take, or cause to be taken, any action relating to Company, the Subsidiaries, their respective businesses and assets, the Transaction or any matter contemplated by this Agreement that would require the approval of or any action of any of the boards of directors or equity holders of Seller or any of Seller's direct or indirect parent companies, including Kelda.
- (d) For the sake of clarity, the parties acknowledge and agree that, other than as expressly contemplated by this Section 5.1, none of Seller, Kelda or their respective affiliates (other than

Company and the Subsidiaries) shall be entitled to, and shall not cause Company or any Subsidiary to pay to Seller, Kelda or their respective affiliates, any funds or cash from Company or any Subsidiary other than: (i) dividends permitted to be paid under Section 5.1(a)(v); (ii) the management fees set forth in the Forecast; (iii) payments in respect of Taxes allocable to Company and Subsidiaries in respect of periods beginning on or after January 1, 2006 as set forth in the Forecast (unless otherwise consented to by Purchaser, such consent not to be unreasonably withheld, conditioned or delayed); or (iv) interest payments, when due and owing, in respect of the Inter-Company Loan.

- (e) Seller shall cause the Company to (i) provide advance notice of any proposed termination, negotiation or renegotiation with respect to any existing collective bargaining agreements and (ii) keep the Purchaser apprised of any significant developments in the course of such negotiations with respect to the applicable bargaining representatives.

5.2 Access to Information

Seller shall, and shall cause Company and each Subsidiary to, afford to Purchaser and its accountants, counsel and other representatives reasonable access, upon reasonable notice during normal business hours during the period prior to the Closing, to such properties, assets, books, contracts, commitments, Tax Returns, records, other documents and personnel of Company and each Subsidiary as may be reasonably requested, and, during such period shall furnish promptly to Purchaser any information concerning Company or any Subsidiary as Purchaser may reasonably request; provided, however, that, in any such case, such access or request for information does not reasonably disrupt the normal operations of Company or any Subsidiary.

5.3 Confidentiality

Purchaser acknowledges that the information being provided to it in connection with the Acquisition and the consummation of the other transactions contemplated hereby is subject to the terms of a confidentiality agreement, dated as of February 13, 2006 (the **Confidentiality Agreement**), the terms of which are incorporated into this Agreement by reference. Notwithstanding any provision of the Confidentiality Agreement or this Agreement to the contrary, Purchaser shall be permitted to disclose information made available to it under this Agreement or pursuant to the Confidentiality Agreement to any person or entity that is an equity investor, or potential equity investor, in Purchaser or any of Purchaser's permitted assignees (or to the advisors to any such investor) under this Agreement so long as any such person or entity agrees to be bound by the terms of the Confidentiality Agreement with respect to such information as if it were a party thereto. Effective upon, and only upon, the Closing, the Confidentiality Agreement shall terminate with respect to information relating solely to Company and the Subsidiaries; provided, however, that Purchaser acknowledges that any and all other information provided to it by Seller shall remain subject to the terms and conditions of the Confidentiality Agreement.

5.4 Reasonable Best Efforts

- (a) On the terms and subject to the conditions of this Agreement, each party shall use its reasonable best efforts to cause the Closing to occur, including taking all reasonable actions necessary to comply promptly with all legal requirements that may be imposed on it or any of its affiliates with respect to the Closing. For the sake of clarity, reasonable best efforts shall not include waiving any conditions or other rights set forth in this Agreement.

- (b) Each of Seller and Purchaser shall as promptly as practicable, but in no event later than 120 days following the date of this Agreement, file with the United States Federal Trade Commission (the **FTC**) and the United States Department of Justice (the **DOJ**) the notification and report form, if any, required for the transactions contemplated by this Agreement pursuant to the HSR Act (**HSR Filing**). Any supplemental information requested by the FTC or DOJ in connection with any such HSR Filing (**Requested Information**) shall also be provided as promptly as practicable. Any such HSR Filing and provision of Requested Information shall be in substantial compliance with the requirements of the HSR Act. Each of Seller and Purchaser shall furnish to the other such necessary information and reasonable assistance as the other may request in connection with its preparation of any such HSR Filing or Requested Information. Seller and Purchaser shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from, the FTC or the DOJ. Each party shall use its reasonable best efforts to cause the condition set forth in Section 6.1(a) to be satisfied. For purposes of this Section 5.4, the "reasonable best efforts" of Purchaser and Seller shall include refraining from taking any action (other than those permitted or contemplated by this Agreement) that would reasonably be expected to result in a Company Material Adverse Effect, a Purchaser Material Adverse Effect or result in the failure of any condition set forth in Article 6 to be satisfied.
- (c) The parties shall, and shall cause their affiliates to, cooperate and use reasonable best efforts promptly to prepare and jointly file, but in no event later than 120 days following the date of this Agreement, all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use reasonable best efforts to obtain the Other Regulatory Approvals. The parties shall diligently prosecute all such applications, notices, petitions, filings and other documents so as to obtain the Other Regulatory Approvals at the earliest practicable time. Copies of all filings provided by one party to any Government Entity in connection with the Other Regulatory Approvals will be provided to the other party ten days prior to such filing, and such other party shall have the right to comment on all such filings. Copies of all correspondence provided by one party to any Government Entity in connection with the Other Regulatory Approvals will be provided promptly to the other party.
- (d) Prior to the Closing and until the first anniversary thereof, each party shall, and shall cause its affiliates to, use its reasonable best efforts to obtain, and to cooperate in obtaining, all consents from third parties necessary or appropriate to permit the consummation of the Acquisition; provided, however, that the parties shall not be required to pay or commit to pay any amount to (or incur any obligation in favor of) any person from whom any such consent may be required (other than nominal filing or application fees).
- (e) From the date of this Agreement until the Closing, the parties shall reasonably cooperate with each other so as to keep the other informed as to the condition of Company and the Subsidiaries and the status of the Acquisition and the other transactions contemplated by this Agreement, including, in the case of Purchaser, as to activities of Purchaser related to financing the Acquisition or the other transactions contemplated by this Agreement. In furtherance thereof, the parties shall each appoint an officer-level employee to serve as head of their transition team and shall hold regular meetings or conference calls so that the members of each party's transition teams may discuss the condition of Company and the Subsidiaries and the status of the Acquisition and the other transactions contemplated by this Agreement.

5.5 Expenses; Transfer Taxes

- (a) Whether or not the Closing takes place, and except as set forth in Section 5.8 and Article 8, all costs and expenses, including fees of and disbursements for counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party that incurs such costs and expenses, including all costs and expenses incurred pursuant to Section 5.4; provided, however, that Seller and Purchaser shall each bear 50% of all costs of all consultants and counsel jointly retained in connection with obtaining the Other Regulatory Approvals.
- (b) All transfer taxes applicable to the transfer of the Shares shall be paid by the party obligated to do so under Applicable Law. Each party shall use reasonable efforts to avail itself of any available exemptions from any such Taxes or fees and to cooperate with the other party in providing any information and documentation that may be necessary to obtain such exemptions.
- (c) All transfer taxes applicable to the actual or deemed transfer of Owned Real Property and Leased Real Property shall be paid by the party obligated to do so under Applicable Law. Each party shall use reasonable efforts to avail itself of any available exemptions from any such Taxes or fees and to cooperate with the other party in providing any information and documentation that may be necessary to obtain such exemptions and to effect the real estate transfer tax filings.
- (d) For the sake of clarity, all amounts for which Seller is responsible under this Section 5.5 shall be borne solely by Seller or Kelda and shall not be paid by Company or any Subsidiary.

5.6 Benefit Plan Matters

- (a) On and after the Closing Date, Purchaser shall give all Affected Employees full credit for all purposes (including for purposes of eligibility to participate, early retirement eligibility and early retirement subsidies, vesting and benefit accrual, except where it would result in a duplication of benefits) under any employee benefit plans or arrangements maintained by Purchaser or its subsidiaries immediately prior to the Closing Date for the Affected Employees' service with Company or any Subsidiary to the same extent recognized by Company or any Subsidiary under comparable plans immediately prior to the Closing Date; provided, however, that this language shall not be construed as giving past service credit for awards that require future service as a condition of earning any bonus, incentive or equity awards granted on or after the Closing Date. **Affected Employee** means each individual who is employed by Company or any Subsidiary on the Closing Date, including any such individuals on approved leave of absence (including maternity and paternity leave, vacation, sick leave, short-term or long-term disability, military leave, jury duty and bereavement leave). Section 5.6(a) of the Seller Disclosure Schedule lists, as of the date of this Agreement, each Affected Employee and his or her date of hire.
- (b) Except as otherwise provided in collective bargaining agreements to the extent applicable to Affected Employees, until the first anniversary of the Closing, Purchaser shall, or shall cause its subsidiaries to, provide (i) each Affected Employee with salary and bonus opportunities that are no less favorable to such Affected Employee than those in effect immediately prior to the Closing Date, but not including for this purpose any bonus or incentive compensation plans, programs, agreements or arrangements maintained by Seller, the Seller Compensation Increases or any equity-based compensation, and (ii) Affected Employees with employee benefit plans and arrangements (other than salary and any and all bonus opportunities and incentive compensation referenced in clause (i)) that are, except as otherwise specifically provided in this Section 5.6,

substantially similar in the aggregate to those provided to the Affected Employees immediately prior to the Closing Date. Purchaser shall provide to each Affected Employee who is covered by a collective bargaining agreement such compensation and benefits as are required to be provided pursuant to the applicable collective bargaining agreement. Notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall confer upon any Affected Employee the right to continue in employment following the Closing Date, or is intended to interfere with Purchaser's, Company's or any Subsidiary's right (A) to terminate the employment of any Affected Employee for any reason or no reason from or following the Closing Date or (B) to terminate any Benefit Plan to the extent such plan is maintained by Company or any Subsidiary as of the Closing Date. Effective as of the Closing Date, Company or Purchaser shall assume the employment and continuity agreements set forth in Section 3.15(a) of the Seller Disclosure Schedule; provided, however, that Seller shall fund any cash severance payments due under those certain agreements set forth in Section 5.1(a)(xvii) of the Seller Disclosure Schedule.

- (c) With respect to any welfare benefit plans of Purchaser and its subsidiaries (**Purchaser Welfare Plans**) in which the Affected Employees and their dependents may be eligible to participate after the Closing Date Purchaser shall (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Affected Employees to the extent waived under the applicable corresponding Benefit Plan immediately prior to the Closing Date and (ii) provide each Affected Employee with credit for any co-payments and deductibles paid prior to the Closing Date in the calendar year in which the Closing Date occurs (or, if later, in the calendar year in which Affected Employees and their dependents commence participation in the applicable Purchaser Welfare Plan) for purposes of satisfying any applicable deductible or out-of-pocket requirements under any Purchaser Welfare Plans in which the Affected Employees are eligible to participate after the Closing Date
- (d) As of the Closing Date, each participant in any Company Pension Plan that is a Defined Benefit Plan (other than such a plan being retained by Seller or any Retained Entity) who is then an employee of any Retained Entity shall be fully vested in his or her accrued benefits thereunder and treated as a terminated vested participant in such Company Pension Plan.
- (e) 401(k) Plan Matters
 - (i) Prior to the Closing Date, Seller shall cause one of the Retained Entities to assume sponsorship of the Aquarion Company 401(k) Savings and Investment Plan (**Retained Entities' 401(k) Plan**). No later than the Closing Date, Seller shall ensure that the Savings Plan for Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of New York, Aquarion Water Company of Massachusetts and Aquarion Water Company of New Hampshire (**Purchaser's 401(k) Plan**) provides benefits on and following the Closing Date solely for Affected Employees who are participants in the Retained Entities' 401(k) Plan immediately prior to the Closing Date. Each Affected Employee participating in the Retained Entities' 401(k) Plan as of the Closing Date shall become a participant in Purchaser's 401(k) Plan as of the Closing Date.
 - (ii) Prior to the Closing Date, Seller shall cause to be transferred (a **401(k) Transfer**) to Purchaser's 401(k) Plan, and Seller agrees to cause Purchaser's 401(k) Plan to accept, the account balances (including all outstanding loans and subject to any qualified domestic relations orders pursuant to Section 414(p) of the Code) for Affected Employees in Purchaser's 401(k) Plan as of the valuation date next preceding such transfer. Following

the 401(k) Transfer, Purchaser's 401(k) Plan shall assume all assets and liabilities from the Retained Entities' 401(k) Plan, but solely with respect to Affected Employees. Seller has made available (or will make available as soon as reasonably practicable following the date of this Agreement) to Purchaser a list of all Affected Employees who are participants in the Retained Entities' 401(k) Plan as of the date of this Agreement, together with the amount of their account balances and any outstanding plan loans.

- (f) Company shall continue to be responsible in accordance with all self-funded welfare plans in effect prior to the Closing Date for all reimbursement claims (such as medical and dental claims) for expenses incurred, and for all non-reimbursement claims (such as life insurance claims) incurred, under such plans prior to the Closing Date (whether or not such claims are submitted prior to the Closing Date) by employees of Seller, the Retained Entities and their respective subsidiaries (other than Company and the Subsidiaries) and their dependents. To the extent that any expense is incurred under such self-funded welfare plans by Company, which expense is not otherwise reimbursed by the stop loss insurance in effect as of the Closing Date and which, in the ordinary course, would be charged back to the Retained Entities, such amount shall be charged to the Retained Entities by Company, following the Closing Date, in accordance with past practice and Seller shall promptly reimburse Company therefor. In no event will employees of the Retained Entities participate in such self-funded welfare plans of Company from or following the Closing Date. Company shall continue to be responsible in accordance with all insured welfare plans in effect prior to the Closing Date for all claims incurred under such plans prior to the Closing Date by employees of Seller, the Retained Entities and their respective subsidiaries (other than Company and the Subsidiaries) and their dependents, except for any liabilities caused by the failure of Seller or any Retained Entity to comply with Applicable Law or the terms of any applicable plan or contract.
- (g) Cafeteria Plan Matters
- (i) Prior to the Closing Date, Seller shall cause one of the Retained Entities to assume sponsorship of the Aquarion Company Flexible Benefits Plan (**Company Cafeteria Plan**). If the Closing Date occurs prior to January 1, 2007, Purchaser agrees to accept a spin-off into a cafeteria plan (that includes flexible spending reimbursement accounts) qualifying under Section 125 of the Code (**Purchaser Cafeteria Plan**) of the flexible spending reimbursement accounts of the Affected Employees from the Company Cafeteria Plan and to honor and continue through the end of the calendar year in which the Closing Date occurs the elections made by each Affected Employee under the Company Cafeteria Plan in respect of such flexible spending reimbursement accounts that are in effect immediately prior to the Closing. As soon as practicable following the Closing Date, Seller shall cause to be transferred from the Company Cafeteria Plan to the Purchaser Cafeteria Plan the excess of the aggregate accumulated contributions to the flexible spending reimbursement accounts made by Affected Employees prior to the Closing during the year in which the Closing occurs over the aggregate reimbursement payouts made to the Affected Employees prior to the Closing for such year from such accounts. From and after the Closing, Purchaser shall assume and be solely responsible for all claims by Affected Employees under the Company Cafeteria Plan, whether incurred prior to, on or after the Closing Date, that have not been paid in full as of the Closing Date.
- (ii) Notwithstanding Section 5.6(g)(i), if the Closing Date occurs on or following January 1, 2007, Seller shall cause the Retained Entities to establish a separate flexible spending

plan and all employees of the Retained Entities and their dependents who were then eligible to participate in the Company Cafeteria Plan shall be eligible to participate in such new flexible spending plan as of January 1, 2007. Company shall retain all liabilities under the Company Cafeteria Plan in respect of period prior to January 1, 2007, except for any liabilities caused by the failure of Seller or any Retained Entity to comply with Applicable Law or the terms of any applicable plan or contract.

- (h) Following the date of this Agreement, Seller and Purchaser shall reasonably cooperate in all matters reasonably necessary to effect the transactions contemplated by this Section 5.6, including exchanging information and data relating to workers compensation, employee benefits and employee benefit plan coverages, and in obtaining any governmental approvals required hereunder, unless such exchange of information and data would violate Applicable Law.
- (i) Purchaser shall honor all vacation days, holiday and sick days accrued by each Affected Employee as of the Closing Date. As soon as practicable following the date of this Agreement, Seller shall provide Purchaser with a schedule of all vacation, holiday and sick days of the Affected Employees accrued as of January 1, 2006.
- (j) Solely to the extent the insurance carrier under the Aquarion Company Long Term Disability Income Plan (the **LTD Plan**) continues to cover the applicable individuals from and following the Closing, Company shall retain liability for long-term disability benefits payable under the LTD Plan in respect of any covered individuals who (A) as of the Closing Date are disabled (within the meaning of the LTD Plan) and (B) either as of the Closing Date are eligible to receive, or following the expiration of any applicable elimination period will be eligible to receive, disability benefits under the LTD Plan in respect of such disability, including, in each case, employees of Seller, the Retained Entities or their respective subsidiaries (other than Company and the Subsidiaries). Seller and Purchaser shall cooperate to cause the insurance carrier under the LTD Plan to continue to cover the individuals described in the immediately preceding sentence following the Closing Date. Any and all employees of the Retained Entities that are in employment, or return to employment following the Closing Date, shall be the exclusive liability of Seller or the Retained Entities, except with respect to such pre-Closing welfare benefits to the extent provided in Section 5.6(f) and the LTD Plan benefits as provided hereinabove.
- (k) Purchaser shall and shall cause Company and the Subsidiaries to honor each collective bargaining agreement in effect as of the Closing Date to which Company or any Subsidiary is a party
- (l) In addition to the requirements of Section 5.6(b), until the first anniversary of the Closing, or if sooner, the date an applicable Affected Employee's employment is terminated, Purchaser shall, or shall cause its subsidiaries to, provide Affected Employees who are Non-Union Employees annual base salary that is no less than the average annual wages provided to Union Employees who are performing substantially similar job functions but solely to the extent such employees were receiving annual base salaries not less than such average annual wages as of the Closing. **Non-Union Employee** means any Affected Employee who is (i) not covered by any collective bargaining agreement to which Company or any Subsidiary is a party and (ii) performing job functions substantially similar to those performed by a Union Employee. **Union Employee** means any Affected Employee who is covered by any collective bargaining agreement to which Company or any Subsidiary is a party.

- (m) Seller shall provide Purchaser with such information and documents concerning the Benefit Plans and the Affected Employees as Purchaser may reasonably request from time to time prior to the Closing or thereafter to the extent such information is not readily available from Company.

5.7 Tax Matters

(a) Tax Sharing Arrangements

Seller shall cause the provisions of any Tax sharing agreement between (i) Seller or any of its affiliates (other than Company and the Subsidiaries) and (ii) Company or any Subsidiary, to be terminated on or before the Closing Date. After the Closing Date, no party shall have any rights or obligations under any such Tax sharing agreement.

(b) Tax Returns

- (i) Seller shall have the exclusive authority and obligation on behalf of Company and Subsidiaries to prepare, execute and timely file, or cause to be prepared, executed and timely filed, all foreign, federal, state and local Tax Returns of Company and Subsidiaries that are due on or prior to the Closing Date, and subject to Sections 5.7(c)(i) and 5.7(c)(ii)(A) shall pay or shall cause to be paid any and all Taxes due with respect to such Tax Returns. Such Tax Returns shall be prepared in a manner consistent with past practice.
- (ii) Seller shall have the exclusive authority and obligation on behalf of Company and Subsidiaries to prepare and timely file, or cause to be prepared and timely filed, and, if required to do so by applicable Tax Law, shall deliver, within 30 days prior to the deadline for the filing of such Tax Returns, to Purchaser for signing and filing all (A) consolidated, combined or unitary Income Tax Returns for which Seller is the common parent and are not required to be filed on or prior to the Closing Date and (B) other Tax Returns with respect to Pre-Closing Periods that end on or before the Closing Date. Subject to Sections 5.7(c)(i) and 5.7(c)(ii)(A), Seller shall pay or shall cause to be paid any and all Taxes shown as due with respect to such Tax Returns described in the preceding sentence. Such Tax returns shall be prepared in a manner consistent with past practice, and Seller shall deliver a draft of such Tax Returns to Purchaser at least 30 days prior to their due date and shall take into account in good faith any comments of Purchaser with respect thereto.
- (iii) Purchaser shall have the exclusive authority and obligation to prepare and timely file, or cause to be prepared and timely filed, all Tax Returns of Company and Subsidiaries for which Seller is not responsible pursuant to Sections 5.7(b)(i) and 5.7(b)(ii). Subject to Section 5.7(c)(ii), Purchaser shall pay or cause to be paid any and all Taxes due with respect to such Tax Returns. With respect to Tax Returns of Company and Subsidiaries that reflect Pre-Closing Periods, Purchaser shall provide to Seller at least 30 days prior to the due date for filing such Tax Returns (A) drafts of all such Tax Returns; (B) a statement certifying the amount of Taxes shown on such Tax Return that is allocable to Seller pursuant to Section 5.7(c)(i), together with the appropriate supporting information and schedules and (C) an opportunity to review and comment on such Tax Returns. Purchaser shall

in good faith take into account such comments in its preparation of such Tax Returns.

(c) **Liability, Indemnification and Apportionment of Taxes**

- (i) Seller shall be liable for and, Seller shall indemnify and hold harmless Purchaser and its affiliates (the **Purchaser Indemnitees**) against all Taxes (whether assessed or unassessed) (A) applicable to Company or any Subsidiary attributable to a Pre-Closing Period, (B) attributable to any breach of any covenant in this Section 5.7, (C) attributable to any breach of any representation in Section 3.13, (D) attributable to a Pre-Closing Period or a Straddle Period for which Company or any Subsidiary is liable under Treas. Reg. §1-1502-6 or any similar provision of state, local or foreign law or (E) for which Seller is responsible pursuant to Section 5.5; provided, however, that Seller shall not be liable for (I) any interest or penalties attributable to the negligence, unreasonable delay or bad faith of Purchaser or its affiliates or (II) any interest or penalties imposed or assessed, or losses incurred, to the extent attributable to Purchaser's late filing of any Tax Return or late payment of any Taxes. Seller shall be entitled to any refund of (or credit for) Taxes allocable to any Pre-Closing Period, including any applicable interest thereon. Purchaser, Company or any Subsidiary, as the case may be, shall pay over to Seller any such refund or the amount of any credit within 15 days after actual receipt or recognition.
- (ii) Purchaser shall be liable for and Purchaser shall indemnify and hold harmless Seller and its affiliates (the **Seller Indemnitees**) against all Taxes (whether assessed or unassessed) applicable to Company or any Subsidiary (A) attributable to Post-Closing Periods and (B) any breach of any covenant in this Section 5.7. Except as otherwise provided herein, Company or any Subsidiaries, as the case may be, shall be entitled to any refund of (or credit for) Taxes allocable to any Post-Closing Period, including any applicable interest thereon. Seller shall pay over to Company any such refund or the amount of any credit within 15 days of actual receipt or recognition.
- (iii) For purposes of this Agreement, whenever it is necessary to apportion the liability for Taxes that are either based upon or related to income, receipts, capital or net worth for a Straddle Period, the determination of the Taxes that are apportioned to the Pre-Closing Period and the Post-Closing Period shall be determined by assuming that the Straddle Period consisted of two taxable years or periods, one which ended at the close of the Closing Date and the other of which began at the beginning of the day following the Closing Date, and items of income, gain, deduction, loss or credit for the Straddle Period shall be allocated between such two taxable years or periods on a "closing of the books basis" by assuming that the relevant books were closed at the close of the Closing Date; provided, however, that (A) transactions occurring on the Closing Date after the Closing Date not in the ordinary course of business shall be apportioned to a Post-Closing Period to the extent permitted by Treasury Regulations Section 1.1502-76(b)(1)(ii)(B), and (B) exemptions, allowances or deductions that are calculated on an annual basis, such as the deduction for depreciation, shall be apportioned between such two taxable years or periods on a daily basis and Taxes that are computed on a periodic basis, such as property Taxes, shall also be so apportioned on a daily basis.
- (iv) Seller or Purchaser, as the case may be, shall provide reimbursement for any Tax paid by one party all or a portion of which is the responsibility of the other party in accordance with the terms of this Section 5.7. Within a reasonable time prior to the payment of any

such Tax, the party paying such Tax shall give written notice to the other party of the Tax payable and the portion which is the liability of each party, although failure to do so will not relieve the other party from its liability hereunder.

- (v) If, as a result of any action, suit, investigation, audit, claim, assessment or amended Tax Return, there is any change after the Closing Date in an item of income, gain, loss, deduction, credit or amount of Tax that results in an increase in Tax liability for which Seller would otherwise be liable pursuant to this Section 5.7, and such change results in a decrease in the Tax liability of Purchaser, Company or any Subsidiary for any taxable year or period beginning after the Closing Date (or for the portion of any Straddle Period beginning after the Closing Date), Seller shall be liable only for the net amount of such increase after taking into account the net present value of such decrease in accordance with the provisions of this Section 5.7 (and, to the extent such increase in Tax liability is paid to a Tax authority or Government Entity by Seller or any affiliate thereof, Purchaser shall pay Seller an amount equal to the net present value of such decrease).

(d) **Controversies**

- (i) Purchaser shall notify Seller in writing within 30 days of the receipt by Purchaser or any Affiliate of Purchaser (including Company or any Subsidiary after the Closing Date) of written notice of any inquiries, claims, assessments, audits or similar events with respect to Taxes relating to a Pre-Closing Period for which Seller may be liable under Section 5.7(c)(i) (any such inquiry, claim, assessment, audit or similar event, a **Tax Matter**). For Tax Matters relating solely to a taxable period that ends on or before the Closing Date for which Seller acknowledges in writing its liability under Section 5.7(c)(i), Seller, at its own expense, shall have the exclusive authority to represent the interests of Company or any Subsidiary with respect to any such Tax Matter before the IRS or any other Tax authority or Government Entity or authority or any court and shall have the sole right to extend or waive the statute of limitations with respect to such Tax Matter, including responding to inquiries, filing Tax Returns and settling audits or lawsuits; provided, however, that Seller shall not enter into any settlement of or otherwise compromise any such Tax Matter that adversely affects or may adversely affect the Tax liability of Purchaser, Company or any Subsidiary for any Post-Closing Period, including any Straddle Period, without the prior written consent of Purchaser, which consent shall not be unreasonably withheld. Seller shall keep Purchaser fully and timely informed with respect to the commencement, status and nature of any Tax Matter. Seller shall, in good faith, allow Purchaser or Purchaser's counsel to consult with it regarding the conduct of or positions taken in any such proceeding. For Tax Matters relating to Straddle Periods, each of Seller and Purchaser may participate, at its own expense, in representing the interests of Company or any Subsidiary; provided that the representation shall be controlled by Purchaser; provided, further, that Purchaser shall not enter into any settlement of, or otherwise compromise, any such Tax Matter that adversely affects or may adversely affect the Tax liability of Seller, Company or any Subsidiary for any Pre-Closing Period, including any Straddle Period, without the prior written consent of Seller, which consent shall not be unreasonably withheld.
- (ii) For Tax Matters relating solely to a taxable period that begins after the Closing Date, Purchaser, Company or any Subsidiary, as the case may be, at its own expense, shall have the exclusive authority to represent the interests of Company or any Subsidiary with respect to any such Tax Matter before the IRS or any other Tax authority or Government

Entity or authority or any court and shall have the sole right to extend or waive the statute of limitations with respect to such Tax Matter, including responding to inquiries, filing Tax Returns and settling audits or lawsuits; provided, however, that Purchaser, Company or any Subsidiary, as the case may be shall not enter into any settlement of or otherwise compromise any such Tax Matter that adversely affects or may adversely affect the Tax liability of Seller, Company or any Subsidiary for any Pre-Closing Period, including any Straddle Period, without the prior written consent of Seller, which consent shall not be unreasonably withheld. Only if and when a Tax Matter becomes reasonably expected to adversely affect the Tax Liability of Seller, Company or any Subsidiary for any Pre-Closing Period, Purchaser, Company or any Subsidiary, as the case may be, (A) shall keep Seller fully and timely informed with respect to the status and nature of any such Tax Matter and (B) reasonably consider comments from Seller or Seller's counsel regarding the conduct of or positions taken in any such proceeding.

- (iii) In the event that Purchaser fails to notify Seller with respect to a Tax Matter in accordance with Section 5.7(d)(i), Seller shall not be relieved of its obligation to indemnify Purchaser under this Agreement with respect to such Tax Matter except to the extent that such failure to notify Seller prejudices Seller's ability to adequately defend against such Tax Matter.

(e) **Assistance and Cooperation**

After the Closing Date, each party shall (and shall cause their respective affiliates, including Company and Subsidiaries, to):

- (i) assist the other party in preparing any Tax Returns, audit examinations and any administrative or judicial proceedings relating to Tax liabilities imposed on Seller, Purchaser, Company or any Subsidiary for all Pre-Closing Periods or Straddle Periods including during normal business hours, the furnishing or making available of available of records, personnel (as reasonably required and at no cost to the other party), books of account, powers of attorney or other materials necessary or helpful for the preparation of such Tax Returns, the conduct of audit examinations or the defense of claims by Tax authorities or Governmental Bodies as to the imposition of Taxes;
- (ii) each party shall retain all Tax Returns, schedules and work papers and all material records or other documents relating to all Taxes of Purchaser, Company and the Subsidiaries for the Tax period first ending after the Closing Date and for all prior Tax periods until the later of (A) the expiration of the statute of limitations of the Tax periods to which such Tax Returns and other documents relate, without regard to extension, except to the extent notified by the other party in writing of any such extensions for applicable Tax periods, or (B) seven years following the due date (without extension) for such Tax Returns, and each of the parties shall maintain such Tax Returns, schedules, work papers, records and documents in the same manner and with the same care it uses in maintaining its Tax Returns, schedules, work papers, records and documents; and
- (iii) each party shall give the other party reasonable written notice prior to destroying or discarding any such books or records and, if the other party so requests, the other party may take possession of such books and records.

(f) **Disputes**

If the parties disagree as to the calculation of any amount relating to Taxes governed by this Section 5.7, the parties shall promptly consult with each other in an effort to resolve the disagreement. If any such disagreement is not resolved within 30 days after either party gives the other written notice that it cannot be resolved, the parties shall jointly select a firm of nationally recognized independent accountants (the **Expert**) selected jointly by the parties to resolve the disagreement. The Expert shall decide the matter in question as an expert (and not as an arbitrator) and the Expert's decision shall be final, except in the case of manifest error. Both parties shall make all relevant information available to the Expert. The cost of the Expert shall be borne by the parties in such proportions as the Expert considers to be fair and reasonable in all circumstances to resolve the disagreement.

(g) **Payments**

- (i) If a party, Company or any Subsidiary pays any Taxes to be borne by another party under this Agreement, the other party shall within 30 days of receipt of notice thereof reimburse the paying party (or Company) for the Taxes paid, which payment shall be in clear funds.
- (ii) Any amounts paid by Seller to Purchaser, Company or any Subsidiary or by Purchaser, Company or any Subsidiary to Seller pursuant to this Agreement shall be treated by the parties as adjustments to the amount paid by Purchaser to Seller for the Shares.

5.8 Post-Closing Cooperation

- (a) Seller and Purchaser shall cooperate with each other, and shall cause their affiliates and their officers, employees, agents, auditors and representatives to cooperate with each other, for a period of 60 days after the Closing to ensure the orderly transition of Company and the Subsidiaries from Seller to Purchaser and to minimize any disruption to Company and the Subsidiaries and the other respective businesses of Seller and Purchaser that might result from the Acquisition and the other transactions contemplated by this Agreement.
- (b) For a period of five years after the Closing Date (or such longer period as may be necessary to enable Seller to comply with Applicable Law), Purchaser shall, and shall cause its subsidiaries (including Company and the Subsidiaries) to, afford Seller and its representatives reasonable access, upon reasonable notice, during normal business hours and without undue interruption of Purchaser's business, to the books, records and personnel of Company and the Subsidiaries in respect of matters pertaining to periods prior to the Closing Date in connection with financial statements and reporting obligations and other reasonable business purposes; provided, that nothing herein shall limit Seller's rights of discovery. Purchaser agrees to hold all of the books and records of Company and the Subsidiaries existing on the Closing Date in accordance with Purchaser's standard record retention policies; provided, that Purchaser shall not destroy, alter or dispose (or permit to be destroyed, altered or disposed) any such books and records for a period of five years from the Closing Date or such longer time as may be required by Applicable Law without first offering in writing at least 60 days prior to such destruction, alteration or disposal to surrender them to Seller.
- (c) Each party shall reimburse the other for reasonable out-of-pocket costs and expenses incurred in assisting the other pursuant to this Section 5.8. Neither party shall be required by this Section 5.8 to take any action that would unreasonably interfere with the conduct of its business or unreasonably disrupt its normal operations (or, in the case of Purchaser, those of Company or any of the Subsidiaries).

5.9 Publicity

Through the Closing Date, no public release or announcement concerning the Acquisition or the other transactions contemplated by this Agreement shall be issued by either party without the prior consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed), except as such release or announcement may (a) be required by Applicable Law or the rules or regulations of any United States or foreign securities exchange or (b) be in connection with obtaining the Other Regulatory Approvals, in which case the party required to make the release or announcement shall allow the other party reasonable time to comment on such release or announcement in advance of such issuance and consider in good faith the comments of the other party; provided, however, that each of Seller and Purchaser may make internal announcements to their respective employees (and in the case of Seller, to the employees of Company and the Subsidiaries) that are consistent with the parties' prior public disclosures regarding the Acquisition and the other transactions contemplated by this Agreement after reasonable prior notice to and consultation with the other.

5.10 Records

On the Closing Date, Seller shall deliver or cause to be delivered to Purchaser all material agreements, documents, books, records and files, (collectively, **Records**), if any, in the possession of Seller relating to the business and operations of Company or any of the Subsidiaries to the extent not then in the possession of Company and the Subsidiaries, subject to the following exceptions:

- (a) Purchaser recognizes that certain Records may contain incidental information relating to Company and the Subsidiaries or may relate primarily to subsidiaries, divisions or businesses of Seller other than Company and the Subsidiaries, and that Seller may retain such Records and shall provide copies of the relevant portions thereof to Purchaser;
- (b) Seller may retain all Records prepared in connection with the sale of the Shares, including analyses relating to Company and the Subsidiaries; and
- (c) Seller may retain any Tax Returns, and Purchaser shall be provided with copies of such Tax Returns that relate to Company's and the Subsidiaries' separate Tax Returns or separate Tax liability.

Seller shall maintain as confidential, in accordance with its standard policies regarding confidentiality, all records retained by it pursuant to Section 5.10.

5.11 Certain Licenses and Permits

Seller agrees that all Permits that are held in the name of any employee, officer, director, stockholder or agent of Seller or its affiliates (other than Company or any Subsidiary) on behalf of Company or a Subsidiary shall be duly and validly transferred to Company or a Subsidiary without consideration prior to or as soon as reasonably practicable following the Closing. Section 5.11 of the Seller Disclosure Schedule lists any Company Permits that are held in the name of any employee, officer, director, stockholder or agent of Seller or its affiliates (other than Company or any Subsidiary) on behalf of Company or a Subsidiary.

5.12 Resignations

On the Closing Date, Seller shall cause to be delivered to Purchaser duly signed resignations, effective as of the Closing, from those officers and directors of Company and the Subsidiaries as shall have been designated in writing by Purchaser to Seller not less than ten days prior to the Closing. Seller shall take such other action as is necessary to accomplish the foregoing.

5.13 Further Assurances

From time to time, as and when requested by either party, the other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions (subject to Section 5.4), as such party may reasonably deem necessary or desirable to consummate the Acquisition and the other transactions contemplated by this Agreement.

5.14 Reorganization Transactions

Seller shall, at its sole cost and expense (which costs and expenses shall not be paid by Company or any Subsidiary) take such actions as may be necessary to ensure that, immediately prior to the Closing, neither Company nor any Subsidiary shall own, beneficially or of record, any capital stock, or other equity interest in or securities of, any Retained Entity. Any Taxes arising out of compliance with this Section 5.14 (including Income Taxes on gain recognized with respect to the distribution of assets) shall be borne by Seller.

5.15 Community Service Programs.

The parties acknowledge that the community service programs that are currently provided by Company and its Subsidiaries serve a number of important goals. After the Closing, Purchaser currently intends to cause Company and its Subsidiaries to continue to support community service programs.

5.16 Continuation of Indemnification

Purchaser agrees that after the Closing it shall cause Company and the Subsidiaries to continue to indemnify and hold harmless each of their present and former directors, officers, employees and agents, in their capacities as such, from and against all damages, costs and expenses actually incurred or suffered in connection with any threatened or pending actions, suits or proceedings relating to the businesses of Company or the Subsidiaries or the status of such individual as a director, officer, employee or agent prior to the Closing, to the fullest extent permitted by the organizational documents of Company and the Subsidiaries or by Applicable Law. Purchaser shall retain or include in the organizational documents of Company and the Subsidiaries indemnification and exculpation provisions, including provisions respecting the advancement of expenses, substantially similar to those in effect on the Closing Date for the benefit of the (current or former) officers, directors, employees and agents, and shall not thereafter amend the same (except as required by changes in Applicable Law or to the extent that such amendment preserves or broadens the indemnification or other rights theretofore available to such officers, directors employees and agents). If Company or any Subsidiary merge into, consolidate with or transfer all or substantially all of their assets to another person, then and in each such case, Purchaser shall make and shall cause such person to make proper provision so that the surviving or resulting corporation or the transferee in such transaction shall assume the obligations of Purchaser,

Company and the Subsidiaries under this Section 5.16. This Section 5.16 shall continue for a period of six years following the Closing and is intended to benefit each director, officer, agent or employee who has held such capacity on or prior to the Closing Date.

5.17 Financial Statements

Until the Closing Date, Seller shall provide Purchaser with copies of all (a) annual audited financial statements of Company and each Utility Subsidiary, (b) annual unaudited financial statements of the Other Subsidiaries and (c) unaudited quarterly financial statements of Company and each Subsidiary, in each case, in such form as historically prepared by Company and the Subsidiaries. Seller further agrees to cooperate reasonably, at Purchaser's request and at Purchaser's expense with any supplemental finance disclosure requirements of Purchaser in connection with capital raising activities of Purchaser related to financing the transactions contemplated by this Agreement, including using reasonable efforts to cause the accounting firm that audited the financial statements to provide its consent with respect to the inclusion of its opinion relating to the financial statements in any registration statement filed Purchaser or its United States affiliates; provided, however, that Purchaser shall indemnify and hold harmless Seller and its employees, officers, directors and affiliates in connection with any liability incurred in connection therewith.

5.18 Rate Cases

In connection with any filings made with respect of the rates for any Utility Subsidiary, Seller shall cause Company and the Subsidiaries to (a) provide Purchaser with an opportunity to review and comment on any such filing, (b) give reasonable consideration to all comments provided by Purchaser and (c) reasonably consult with Purchaser from time to time with respect to the status thereof. Seller shall not make any filing nor take any position in any such filing that, individually or in the aggregate, would be expected to have a Company Material Adverse Effect.

5.19 Updating of Information

Seller may, subject to the provisions of this Section 5.19, from time to time (but no more frequently than monthly) prior to the tenth calendar day preceding the Closing Date by notice in accordance with this Agreement supplement or amend Sections 3.1 through 3.20 of the Seller Disclosure Schedule to reflect matters arising after date of this Agreement, and to the extent such supplement or amendment discloses additional liabilities of Company or any Subsidiary that arise after the date of this Agreement, the Seller Disclosure Schedule and the representations and warranties made by Seller shall be deemed to include and reflect such disclosure as of the date of this Agreement and thereafter, including the Closing Date; provided, however, that if any matters reflected in one or more of any such supplements or amendments, individually or in the aggregate, have had or would have a Company Material Adverse Effect, the Purchaser shall have the right to terminate this Agreement pursuant to Section 7.1(a)(vi). Notwithstanding the foregoing or any provision of this Agreement to the contrary, no information included in any supplement or amendment as to which Seller had knowledge as of the date of this Agreement or that seeks to correct any matter relating to the period on or prior to the date of this Agreement shall be considered to have been disclosed for purposes of determining whether Purchaser may seek indemnification under Section 8.1(a)(i) and the Seller Disclosure Schedule and the representations and warranties made by Seller shall not be deemed to include or reflect such supplements or amendments.

5.20 Intra-Group Transactions

Seller shall, as its sole cost and expense (which costs and expenses shall not be paid by Company or any Subsidiary) take such actions as may be necessary to ensure that effective as of the Closing Date, all intra-group receivables, payables and loans then existing between Kelda, Seller or their respective affiliates (but excluding Company and the Subsidiaries), on the one hand, and Company or any Subsidiary, on the other hand, shall be settled in a manner not having any adverse Tax consequences on the Company or its Subsidiaries.

5.21 Section 168(k) Deduction

Notwithstanding any other provision in this Agreement to the contrary, neither Seller, Company nor any Subsidiary shall take any deduction pursuant to Section 168(k) of the Code that was not reported on a Tax Return (excluding any Amended Tax Return) as originally filed prior to the date of this Agreement, unless required to do so by Applicable Law. If Seller, Company or any Subsidiary is required to take, or otherwise does take, any such deduction, then Seller shall (a) promptly notify Purchaser in writing of the same and provide Purchaser with the relevant information regarding any such deduction and (b) any and all amounts received by Seller (with respect to any Tax Period), without offset of any Tax payable or receivable with respect to any Pre-Closing Period, from any and all Tax authorities as a result of taking such deduction within 15 days of receipt of such amount shall (i) if received prior to Closing shall be contributed to Company or (ii) if received after Closing shall be paid over to Company (which amount, for the avoidance of doubt, shall not be included any calculation of net income for purposes of Section 5.1(a)(xiii)).

5.22 Integration Committee

At Purchaser's request on or following the date hereof, Company and Purchaser shall create a special integration committee (**Integration Committee**) that shall operate as a subcommittee of Company's Executive Committee, and shall be tasked with directing and overseeing the work of the Transition Team (as described in Exhibit C). The Integration Committee shall be co-chaired by a senior executive of Company and a senior executive of Purchaser and shall be composed of such co-chairs and two other designees of each of Company and Purchaser. The Transition Team shall undertake to implement the transition arrangements described on Exhibit C.

5.23 No Solicitation to Employ

Until the first anniversary of the Closing Date, neither Seller nor its affiliates shall solicit to employ or employ, effective at any time on or after the Closing Date, any Affected Employee unless Purchaser has first refused to cause Company or a Subsidiary to continue to employ such Affected Employee on and following the Closing Date or such Affected Employee's employment with Company or a Subsidiary is terminated by Company or such Subsidiary as of or after the Closing Date.

6. CONDITIONS PRECEDENT

6.1 Conditions to Each Party's Obligation

The obligation of Purchaser to purchase and pay for the Shares and the obligation of Seller to sell the Shares to Purchaser is subject to the satisfaction or waiver on or prior to the Closing of the following conditions:

- (a) **Government Approvals.** The waiting period under the HSR Act shall have expired or been terminated and all Other Regulatory Approvals shall have become a Final Order; provided, however, that in the event each Other Regulatory Approval has not become a Final Order prior to March 31, 2007, Purchaser and Seller shall agree to negotiate in good faith as to adjustments to the terms of this Agreement so as to permit the transfer of those Subsidiaries approvals with respect to the transfer of which have been received as of such date, it being understood and agreed that neither party shall be obligated to agree to any such adjustments; provided, further, that none of the Other Regulatory Approvals, individually or in the aggregate, shall impose any condition on Company or any Subsidiary that would have a Company Material Adverse Effect. For purposes of this Agreement, a **Final Order** means action by the relevant regulatory authority that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by Applicable Law before the transactions contemplated by this Agreement may be consummated has expired, as to which all conditions to the consummation of such transactions prescribed by Applicable Law have been satisfied and having any applicable appeals period expire without any appeal being filed, or if such appeal is filed, such appeal is fully and finally dismissed without the opportunity for further appeal.
- (b) **No Injunctions or Restraints.** No Applicable Law or injunction enacted, entered, promulgated, enforced or issued by any Government Entity or other legal restraint or prohibition preventing the consummation of the Acquisition shall be in effect.

6.2 Conditions to Obligation of Purchaser

The obligation of Purchaser to purchase and pay for the Shares is subject to the satisfaction (or waiver by Purchaser) on or prior to the Closing Date of the following conditions:

- (a) **Representations and Warranties.** The representations and warranties of Seller in this Agreement shall be true and correct (without reference to any qualification as to materiality or Company Material Adverse Effect) as of the Closing Date as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct (without reference to any qualification as to materiality or Company Material Adverse Effect) as of such earlier date), in each case except for breaches as to matters that, individually or in the aggregate, have not had or would not have a Company Material Adverse Effect. Purchaser shall have received a certificate signed by an authorized officer of Seller to such effect.
- (b) **Performance of Obligations of Seller.** Seller shall have performed or complied in all material respects with all obligations and covenants required by this Agreement to be

performed or complied with by Seller by the time of the Closing, and Purchaser shall have received a certificate signed by an authorized officer of Seller to such effect.

- (c) **Absence of Proceedings.** There shall not be pending or threatened any proceeding by any Government Entity challenging or seeking to restrain or prohibit the Acquisition or any other transaction contemplated by this Agreement, and no statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order enacted, entered, promulgated, enforced or issued by any Government Entity, or other legal restraint or prohibition preventing the purchase and sale of the Shares shall be in effect.
- (d) **FIRPTA Certificate.** Seller shall have delivered to Purchaser at the Closing a certificate under Section 1445(b)(2) of the Code, in form and substance reasonably satisfactory to Purchaser, certifying that Seller is not a foreign person and thus the Acquisition is exempt from withholding pursuant to Foreign Investment in Real Property Tax Act (**FIRPTA**).
- (e) **No Affiliate Transactions.** There shall not be outstanding or ongoing any transactions or indebtedness between Company and any Subsidiary, on one hand, and Kelda, Seller or their respective affiliates (other than Company or any Subsidiary, but including the Retained Entities), on the other hand, except for the Inter-Company Loan (which shall be repaid at Closing) and such other transactions as are made in the ordinary course of business on terms negotiated on an arm's length basis and that are terminable by Company or any Subsidiary, without penalty, on not more than 90 days notice.
- (f) **No Company Material Adverse Effect.** No Company Material Adverse Effect has occurred since the date of this Agreement that is continuing.

6.3 Conditions to Obligation of Seller

The obligation of Seller to sell the Shares is subject to the satisfaction (or waiver by Seller) on or prior to the Closing Date of the following conditions:

- (a) **Representations and Warranties.** The representations and warranties of Purchaser in this Agreement shall be true and correct (without reference to any qualification as to materiality or Purchaser Material Adverse Effect) as of the Closing Date as though made as of such time, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct (without reference to any qualification as to materiality or Purchaser Material Adverse Effect) as of such earlier date, in each case except for breaches as to matters that, individually or in the aggregate, have not had or would not have a Purchaser Material Adverse Effect). Seller shall have received a certificate signed by an authorized officer of Purchaser to such effect.
- (b) **Performance of Obligations of Purchaser.** Purchaser shall have performed or complied in all material respects with all obligations and covenants required by this Agreement to be performed or complied with by Purchaser by the time of the Closing, and Seller shall have received a certificate signed by an authorized officer of Purchaser to such effect.
- (c) **Absence of Proceedings.** There shall not be pending or threatened any proceeding by any Government Entity challenging or seeking to restrain or prohibit the Acquisition or

any other transaction contemplated by this Agreement, and no statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order enacted, entered, promulgated, enforced or issued by any Government Entity, or other legal restraint or prohibition preventing the purchase and sale of the Shares shall be in effect.

6.4 Frustration of Closing Conditions

Neither party may rely on the failure of any condition set forth in this Article 6 to be satisfied if such failure was caused by such party's failure to act in good faith or to use its reasonable best efforts to cause the Closing to occur, as required by Section 5.4.

7. TERMINATION, AMENDMENT AND WAIVER

7.1 Termination

- (a) Notwithstanding anything to the contrary in this Agreement, this Agreement may be terminated and the Acquisition and the other transactions contemplated by this Agreement abandoned at any time prior to the Closing:
- (i) upon mutual written consent of Seller and Purchaser;
 - (ii) by Seller if any of the conditions set forth in Sections 6.1 or 6.3 shall have become incapable of fulfillment and shall not have been waived by Seller;
 - (iii) by Purchaser if any of the conditions set forth in Sections 6.1 or 6.2 shall have become incapable of fulfillment and shall not have been waived by Purchaser; provided, however, that if such incapacity of fulfillment of Section 6.2(a) or 6.2(f) results from any notice provided by Seller pursuant to Section 5.19 that when given discloses matters that, individually or in the aggregate, have had or would have a Company Material Adverse Effect, such termination shall be made in accordance with the provisions of clause (vi) of this Section 7.1(a) and not this clause (iii);
 - (iv) by either Purchaser or Seller, if the Closing does not occur on or prior to March 31, 2007; (the **Termination Date**), unless on such date all conditions to close other than those set forth in Section 6.1(a) shall have been satisfied or are capable of being satisfied in which case the Termination Date shall be extended to May 31, 2007; provided, however, that the right to terminate this Agreement under this Section 7.1(a)(iv) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;
 - (v) by either Purchaser or Seller, if any Government Entity shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Acquisition and the other transactions contemplated by this Agreement and such order, decree, ruling or other action shall have become final and nonappealable; or

- (vi) by Purchaser, upon 30 days' written notice to Seller, if the Seller Disclosure Schedule is updated pursuant to Section 5.19 so as to disclose additional liabilities or obligations of Company or any Subsidiary that, individually or in the aggregate, would have a Company Material Adverse Effect; provided, however, that such notice must be delivered to Seller within 30 days after the Seller Disclosure Schedule is so updated to reflect any matter that, when aggregated with other updates delivered since the date of this Agreement, discloses additional liabilities of Company or the Subsidiaries that have had or would have a Company Material Adverse Effect;

provided, however, that the party seeking termination pursuant to clauses (ii), (iii), (iv) or (vi) above is not then in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement.

- (b) If this Agreement is terminated by either party pursuant to this Section 7.1, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated, without further action by either party. If the transactions contemplated by this Agreement are so terminated:
 - (i) Purchaser shall return to Seller all documents and other materials received from Seller, Company or any Subsidiary relating to the Acquisition, whether so obtained before or after the execution of this Agreement; and
 - (ii) all confidential information received by Purchaser with respect to the business of Company and the Subsidiaries shall be treated in accordance with the Confidentiality Agreement, which shall remain in full force and effect in accordance with its terms notwithstanding the termination of this Agreement.

7.2 Effect of Termination

If this Agreement is terminated as provided in Section 7.1, this Agreement shall become null and void and of no further force and effect, except that the provisions set forth in Sections 2.6 and 4.6 (relating to finder's fees and broker's fees), 5.5 (relating to certain expenses), 5.9 (relating to publicity), 7.1 and 7.2 and Article 9, shall survive. Nothing in this Section 7.2 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

7.3 Amendments and Waivers

This Agreement may be amended by any instrument in writing signed on behalf of each party. By any instrument in writing signed on behalf of either party, such party may waive compliance by the other with any term or provision of this Agreement that the other party was or is obligated to comply with or perform. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach, or a subsequent waiver of the same term or condition or a waiver of any other term or condition, of this Agreement. The failure of either party to assert any of its rights under this Agreement shall not constitute a waiver of any of such rights.

8. INDEMNIFICATION

8.1 Indemnification by Seller

- (a) From and after the Closing, Seller shall be liable for, and shall indemnify each Purchaser Indemnatee against and hold it harmless from, any loss, liability, claim, damage or expense, including reasonable legal fees and expenses (collectively, **Losses**), suffered or incurred by such Purchaser Indemnatee (other than any Loss relating to Taxes, for which indemnification provisions are set forth in Section 5.7(c)) to the extent arising from:
- (i) any breach of any representation or warranty of Seller contained in this Agreement that survives the Closing (in the case of Section 3.6 (Real Property) only, without regard to any qualification as to materiality or Company Material Adverse Effect therein);
 - (ii) any breach of any covenant of Seller contained in this Agreement;
 - (iii) any liabilities of the Retained Entities or of Company or any Subsidiary with respect to the Retained Entities (including any liability of Company or any Subsidiary incurred as a result of Seller's compliance with Section 5.14);
 - (iv) any liability arising from the Guaranty, dated as of March 2003, by Company and in favor of the Water Pollution Control Authority of the City of Bridgeport, Connecticut; and
 - (v) any liability under FIRPTA as a result of the consummation of the Acquisition.
- (b) Seller shall not be required to indemnify any Purchaser Indemnatee, and shall not have any liability:
- (i) under clause (i) of Section 8.1(a) unless the aggregate of all Losses for which Seller would, but for this clause (i), be liable thereunder exceeds on a cumulative basis an amount equal to U.S.\$4.5 million, and then only to the extent of any such excess; provided, however, that such limitation shall not apply to indemnification sought under Section 8.1(a) with respect to breaches of any representations or warranties set forth in Sections 2.7 (The Shares) or 3.2 (Capital Stock of Company and the Subsidiaries);
 - (ii) under clause (i) of Section 8.1(a) for any individual items (aggregating all Losses relating to substantially identical facts) where the Loss relating thereto is less than U.S.\$25,000; provided, however, that such limitation shall not apply to indemnification sought under Section 8.1(a) with respect to breaches of any representations or warranties set forth in Sections 2.7 (The Shares) or 3.2 (Capital Stock of Company and the Subsidiaries);
 - (iii) under clause (i) of Section 8.1(a) and 5.7(c) in excess of U.S.\$75 million; provided, however, that such limitation shall not apply to indemnification sought under Section 8.1(a) with respect to breaches of any representations or warranties set forth in Sections 2.7 (The Shares) or 3.2 (Capital Stock of Company and the Subsidiaries); and

- (iv) under Section 8.1(a) and 5.7(c) to the extent the liability or obligation arises as a result of any action taken or omitted to be taken by Purchaser or any of its affiliates (including, after Closing, any officers or employees of Company or any Subsidiary that are intended to have an equity interest or rights or options to obtain an equity interest in Purchaser or its affiliates, including, after Closing, Company).
- (c) Except as otherwise expressly provided in this Agreement, Purchaser acknowledges that its sole and exclusive monetary remedy after the Closing with respect to any and all claims relating to this Agreement, the Acquisition and the other transactions contemplated by this Agreement, Company or any Subsidiary and its assets and liabilities (other than claims of, or causes of action arising from, fraud) shall be pursuant to the indemnification provisions set forth in this Article 8 (except in the case of Taxes, which is governed by Section 5.7(c)). In furtherance of the foregoing, Purchaser hereby waives, from and after the Closing, any and all rights, claims and causes of action (other than claims of, or causes of action arising from, fraud) for damages it may have against Seller arising under or related to this Agreement, any document or certificate delivered in connection with this Agreement, any Applicable Law, common law or otherwise (except pursuant to the indemnification provisions set forth in this Section 8.1).

8.2 Indemnification by Purchaser

- (a) From and after the Closing, Purchaser shall and shall cause Company and the Subsidiaries to indemnify each Seller Indemnitee against and hold it harmless from any Loss suffered or incurred by such Seller Indemnitee (other than relating to Taxes, for which indemnification provisions are set forth in Section 5.7(c)) to the extent arising from:
 - (i) any breach of any representation or warranty of Purchaser contained in this Agreement that survives the Closing;
 - (ii) any breach of any covenant of Purchaser contained in this Agreement;
 - (iii) all obligations and liabilities of whatever kind and nature, primary or secondary, direct or indirect, absolute or contingent, known or unknown, whether or not accrued, whether arising before, on or after the Closing Date, of Company or any Subsidiary, including any such obligations or liabilities contained in any Contract to which Company or any Subsidiary is a party (in each case other than to the extent related to Retained Entities or for which indemnification is provided under Section 8.1); provided, however, that nothing in this Section 8.2(a)(iii) is intended to limit or qualify any representations or warranties made by Seller in Article 3 or limit or reduce in any way any indemnification provided in this Agreement, to the extent such liabilities or obligations were otherwise the subject of such representations or warranties or would otherwise be the subject of any such indemnification;
 - (iv) any discontinuance, suspension or modification on or after the Closing Date of any Benefit Plan; and
 - (v) any claim that the purchase and sale of the Shares or the transactions contemplated thereby give rise to any severance or other benefits under any Benefit Plan.

- (b) Purchaser shall not be required to indemnify any Seller Indemnitee, and shall not have any liability:
- (i) under clause (i) of Section 8.2(a) unless the aggregate of all Losses for which Purchaser would, but for this clause (i), be liable thereunder exceeds on a cumulative basis an amount equal to U.S.\$4.5 million, and then only to the extent of any such excess; provided, however, that such limitation shall not apply to indemnification sought under Section 8.2(a) with respect to breaches of any representations or warranties set forth in Section 4.7 (Financing);
 - (ii) under clause (i) of Section 8.2(a) for any individual items (aggregating all Losses relating to substantially identical facts) where the Loss relating thereto is less than U.S.\$25,000); provided, however, that such limitation shall not apply to indemnification sought under Section 8.2(a) with respect to breaches of any representations or warranties set forth in Section 4.7 (Financing); and
 - (iii) under clause (i) of Section 8.2(a) and 5.7(c) in excess of U.S.\$75 million; provided, however, that such limitation shall not apply to indemnification sought under Section 8.2(a) with respect to breaches of any representations or warranties set forth in Section 4.7 (Financing).
- (c) Except as otherwise expressly provided in this Agreement, Seller acknowledges that its sole and exclusive monetary remedy after the Closing with respect to any and all claims relating to this Agreement, the Acquisition and the other transactions contemplated by this Agreement or Purchaser (other than claims of, or causes of action arising from, fraud) shall be pursuant to the indemnification provisions set forth in this Article 8 (except in the case of Taxes, which is governed by Section 5.7(c)). In furtherance of the foregoing, Seller hereby waives, from and after the Closing, any and all rights, claims and causes of action (other than claims of, or causes of action arising from, fraud) for damages it may have against Purchaser arising under or related to this Agreement, any document or certificate delivered in connection with this Agreement, any Applicable Law, common law or otherwise (except pursuant to the indemnification provisions set forth in this Section 8.2).

8.3 Calculation of Losses

The amount of any Loss for which indemnification or cost sharing is provided under this Article 8 shall be net of any amounts actually recovered or duly recoverable by the indemnified party under insurance policies with respect to such Loss and shall be (a) increased to take account of any net Tax cost incurred by the indemnified party arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (b) reduced to take account of the present value of any net Tax benefit realized by the indemnified party arising from the incurrence or payment of any such Loss. In computing the amount of any such Tax cost or Tax benefit, the indemnified party shall be deemed to recognize all other items of income, gain, loss deduction or credit before recognizing any item arising from the receipt of any indemnity payment under this Agreement or the incurrence or payment of any indemnified Loss. Any indemnity or cost sharing payment under this Agreement shall be treated as an adjustment to the Purchase Price for Tax purposes, unless a final determination (which shall include the execution of a Form 870-AD or successor form) with respect to the indemnified party or any of its affiliates causes any such payment not to be treated as an adjustment to the Purchase Price for United States federal income tax purposes.

8.4 Termination of Indemnification

The obligations to indemnify and hold harmless any person (a) pursuant to Section 5.7(c), shall terminate at the time the applicable statutes of limitations with respect to the Tax liabilities in question expire (giving effect to any extension thereof), (b) pursuant to Section 8.1(a)(i) or 8.2(a)(i), shall terminate when the applicable representation or warranty terminates pursuant to Section 8.6 and (c) pursuant to the other clauses of Sections 8.1 and 8.2 shall not terminate; provided, however, that such obligations to indemnify and hold harmless shall not terminate with respect to any item as to which the person to be indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a notice of such claim (stating in reasonable detail the basis of such claim) pursuant to Section 8.5 to the party obligated to provide indemnification under Sections 5.7(c), 8.1 or 8.2 (the **indemnifying party**). No indemnifying party shall be liable to an indemnified party if such indemnified party has committed fraud, gross negligence or willful misconduct with regard to the action giving rise to such indemnification claim.

8.5 Procedures

(a) Third Party Claims

In order for a person (the **indemnified party**) to be entitled to any indemnification provided for under Section 8.1 or 8.2 in respect of, arising out of or involving a claim made by any third party against such indemnified party (a **Third Party Claim**), such indemnified party must notify the indemnifying party in writing (and in reasonable detail) of such Third Party Claim within 20 days after receipt by such indemnified party of written notice of the Third Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided under Section 8.1 or 8.2 except to the extent the indemnifying party shall have been actually prejudiced as a result of such failure (except that the indemnifying party shall not be liable for any expenses incurred by the indemnified party during the period in which the indemnified party failed to give such notice). Thereafter, the indemnified party shall deliver to the indemnifying party, within seven days' time after the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to such Third Party Claim. The indemnifying party shall have 30 days from receipt of the notice within which to assume the defense of the Third Party Claim. If the indemnifying party does not respond within such 30 day period, the indemnifying party shall be deemed to have assumed the defense of such Third Party Claim. If the indemnifying party does not to assume the defense of such Third Party Claim, the indemnified party shall be free to seek enforcement of its right to indemnification under Section 8.1 or 8.2 in connection with its defense of such Third Party Claim.

(b) Assumption

If a Third Party Claim is made against an indemnified party, the indemnifying party shall be entitled to participate in the defense thereof and, if it so chooses, at its own expense, to assume, conduct and control the settlement or defense thereof with counsel selected by the indemnifying party; provided, however, that such counsel is not reasonably objected to by the indemnified party. Should the indemnifying party so elect to assume the defense of a Third Party Claim, the indemnifying party shall not be liable to the indemnified party for any legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right to participate in the defense thereof and to employ counsel (not reasonably objected to by the indemnifying

party), at its own expense, separate from the counsel employed by the indemnifying party, it being understood that the indemnifying party shall control and conduct such defense and settlement. The indemnifying party shall be liable for the fees and expenses of counsel employed by the indemnified party with respect to any Third Party Claim for any period during which the indemnifying party has not assumed the defense thereof (other than during any period in which the indemnified party shall have failed to give notice of the Third Party Claim as provided above).

If the indemnifying party chooses to defend or prosecute a Third Party Claim, all the indemnified parties shall cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the indemnifying party of records and information that are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. If the indemnifying party assumes the defense of a Third Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the indemnifying party's prior written consent, and the indemnified party shall agree to any settlement, compromise or discharge of a Third Party Claim that the indemnifying party may recommend that does not impose any obligations or conditions on the indemnified party (other than obligations or conditions that are immaterial) and that by its terms obligates the indemnifying party to pay the full amount of the liability in connection with such Third Party Claim, thereby releasing the indemnified party completely in connection with such Third Party Claim. Notwithstanding the foregoing, the indemnified party shall have the right to settle, compromise or discharge any Third Party Claim; provided, that in such event it shall waive any right to indemnification under Section 8.1 or 8.2 with respect thereto. If the indemnifying party does not assume the defense of a Third Party Claim, the indemnified party shall have the right to conduct and control the defense and settlement in such manner as it deems appropriate, including settling or compromising any such Third Party Claim (after giving prior written notice of the same to the indemnifying party and obtaining the prior written consent of the indemnifying party, which consent shall not be unreasonably withheld, conditioned or delayed) on such terms of the indemnified party may reasonably deem appropriate, and in connection therewith shall have indemnification rights as set forth in this Agreement.

The indemnification required by Section 8.1 or 8.2 shall be made by periodic payments of the amount thereof during the course of the investigation or defense as and when bills are received or loss, liability, claim, damage or expense is incurred. All claims under Section 8.1 or 8.2 other than Third Party shall be governed by Section 8.5(c). All Claims related to Taxes shall be governed by Section 5.7(c).

(c) **Other Claims**

In the event any indemnified party should have a claim against any indemnifying party under Section 8.1 or 8.2 that does not involve a Third Party Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim with reasonable promptness to the indemnifying party. Subject to Sections 8.5 and 8.7, the failure by any indemnified party so to notify the indemnifying party shall not relieve the indemnifying party from any liability that it may have to such indemnified party under Section 8.1 or 8.2, except to the extent that the indemnifying party demonstrates that it has been prejudiced by such failure.

(d) **Mitigation**

Purchaser and Seller shall cooperate with each other with respect to resolving any claim or liability with respect to which one party is obligated to indemnify the other party under this Article 8, including by making commercially reasonable efforts to mitigate or resolve any such claim or liability. If Purchaser or Seller shall fail to make such commercially reasonable efforts to mitigate or resolve any claim or liability, then notwithstanding anything else to the contrary contained in this Agreement, the other party shall not be required to indemnify any person for any Loss to the extent that such Loss could reasonably be expected to have been avoided if Purchaser or Seller, as the case may be, had made such efforts.

8.6 Survival of Representations

The representations and warranties contained in this Agreement shall survive the Closing until 90 days following the end of Purchaser's first full fiscal year following the Closing; provided, however, that (a) the representations set forth in Sections 3.13 (Taxes) and 3.15 (Benefit Plans) shall survive until the expiration of the statute of limitations applicable to the matters governed thereby (giving effect to any waiver, mitigation or extension thereof), (b) the representations set forth in Section 3.10 (Environmental Matters) shall survive until the third anniversary of the Closing Date and (c) the representations set forth in Sections 2.1 (Organization; Power and Qualification), 2.2 (Authority; Execution and Delivery; Enforceability), 2.7 (The Shares), 3.1 (Organization and Standing; Books and Records) and 3.2 (Capital Stock of Company and the Subsidiaries) shall survive indefinitely.

8.7 Cost Sharing

If, prior to the fifth anniversary of the Closing (provided, however, that Seller's obligations to provide cost sharing under this Section 8.7 shall not terminate with respect to any Section 8.7 Claim (as defined below) of which Seller has received notice in accordance with clause (i) below prior to the fifth anniversary of the Closing), any Purchaser Indemnitee suffers or incurs any Losses with respect to any third party claim based upon the matters set forth on Section 8.7 of the Seller Disclosure Schedule (a **Section 8.7 Claim**), Seller shall reimburse such Purchaser Indemnitee for (a) the first U.S.\$5 million of such Losses and (b) one-half of the next U.S.\$10 million of such Losses, such that in no event shall Seller's aggregate obligations under this Section 8.7 to all Purchaser Indemnitees exceed U.S.\$10 million. Notwithstanding the foregoing, the cost sharing set forth in this Section 8.7 shall not apply, and Seller's obligations to reimburse any Losses suffered by any Purchaser Indemnitee under this Section 8.7 in respect of any Section 8.7 Claim are expressly conditioned upon: (a) such Purchaser Indemnitee must notify Seller in writing (and in reasonable detail) of the Section 8.7 Claim with respect to which cost sharing is sought reasonably promptly after receipt by such Purchaser Indemnitee of written notice of such Section 8.7 Claim; (b) Seller having the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Purchaser Indemnitee, it being understood that the Purchaser Indemnitee shall control and conduct such defense; and (c) Seller shall having consented to (such consent not to be unreasonably withheld, conditioned or delayed) any settlement of such Section 8.7 Claim, it being understood and agreed that it shall be reasonable for Seller to withhold consent to any settlement that does not include a full and complete release of Kelda, Seller and their respective affiliates of all claims arising out the facts on which such Section 8.7 Claim is based.

9. GENERAL PROVISIONS

9.1 Assignment

This Agreement and the rights and obligations under this Agreement shall not be assignable or transferable by Seller without the prior written consent of Purchaser. Purchaser may, at its election and without the consent of Seller (a) assign its rights under this Agreement to any fund (or similar vehicle) managed by Purchaser or any of its affiliates or to any other entity (so long as any such assignment shall not relieve Purchaser of any of its obligations under this Agreement) or (b) make a security assignment of its rights under this Agreement to any lender providing financing to Purchaser or its permitted assigns in connection with the Acquisition and the other transactions contemplated by this Agreement (it being understood that any rights under this Agreement shall only be exercised by Purchaser or its permitted assigns and that no assignee pursuant to any security assignment shall be entitled to directly exercise any rights under this Agreement). Any attempted assignment in violation of this Section 9.1 shall be null and void. In addition, for the sake of clarity, it is understood and agreed that the equity interest of Purchaser or its permitted assigns may be assigned, sold or otherwise transferred by Purchaser or its permitted assigns, as the case may be, at any time without Seller's consent.

9.2 No Third-Party Beneficiaries

This Agreement is for the sole benefit of the parties and their permitted assigns and nothing expressed or implied in this Agreement shall give or be construed to give to any person, other than the parties and such assigns, any legal or equitable rights under this Agreement. Without limiting the foregoing, it is expressly understood and agreed that the provisions of Section 5.6 are statements of intent and no employees or other person (including any party hereto) shall have any rights or remedies, including rights of enforcement, with respect thereto and no employee or other person is or is intended to be a third-party beneficiary thereof.

9.3 Notices

All notices, requests, claims, demands and other communications required or permitted to be given under this Agreement shall be in writing and shall be (a) delivered by hand, (b) sent by facsimile or (c) sent, postage prepaid, return receipt requested, by registered, certified or express mail or overnight courier service and shall be deemed given when so delivered by hand or facsimile, or if mailed, three days after mailing, to the parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.3):

if to Purchaser,

Macquarie Utilities Inc.
125 West 55th Street
New York, NY 10019
Phone: (212) 231-1000
Facsimile: (212) 231-1717

Attention: Andrew Ancone

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue
Washington, DC 20005
Phone: (202) 371-7000
Facsimile: (202) 661-8238

Attention: Pankaj K. Sinha

and

if to Seller,

Kelda Group Inc.
Western House
Halifax Road
Bradford BD6 2SZ, United Kingdom
Phone: +44 1274 600 111
Facsimile: +44 1274 608 608

Attention: Philip Hudson

with a copy to:

Allen & Overy LLP
1221 Avenue of the Americas
New York, NY 10020
Phone: (212) 610-6300
Facsimile: (212) 610-6399

Attention: A. Peter Harwich

9.4 Interpretation; Exhibits and Schedules; Certain Definitions

- (a) The headings contained in this Agreement, in any Exhibits or Schedule and in the table of contents are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All Exhibits and Schedules annexed to this Agreement or referred to in this Agreement are hereby incorporated in and made a part of this Agreement as if set forth in full in this Agreement. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein, shall have the meaning as defined in this Agreement. When a reference is made in this Agreement to an Article, Section, clause, Exhibit or Schedule, such reference shall be to an Article, Section or clause of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. Wherever the words "include," "includes" or "including" are used in this Agreement, they are deemed to be followed by the words "without limitation." The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.
- (b) For all purposes of this Agreement:

affiliate of any person means any other person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, such first person.

knowledge of any person (other than a natural person or Seller) means the actual knowledge of the executive officers of such person.

knowledge of Seller means the actual knowledge of those persons listed on Section 9.4(b) of the Seller Disclosure Schedule after reasonable inquiry.

person means any individual, firm, corporation, partnership, limited liability company, association, trust, joint venture, unincorporated organization, syndicate, group, Government Entity or other entity that would be deemed to be a person under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

subsidiary of any person means any other person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50 percent or more of the equity interests of which) is owned directly or indirectly by such first person.

9.5 Counterparts

This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts and by each party in separate counterparts, all of which shall be deemed one and the same agreement, and shall become effective when one or more such counterparts have been signed by each party and delivered to other party.

9.6 Entire Agreement

This Agreement, the Confidentiality Agreement and the Kelda Guarantee contain the entire agreement and understanding among the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, between Seller and Purchaser relating to the subject matter hereof and thereof. Neither party shall be liable or bound to the other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth in this Agreement, the Confidentiality Agreement, or the Kelda Guarantee.

9.7 Severability

If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement (or the remaining portion thereof) or the application of such provision to any other person or circumstances. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement are consummated as originally contemplated to the greatest extent possible.

9.8 Consent to Jurisdiction

Each party irrevocably and unconditionally submits to the exclusive jurisdiction of the United States District Court for the District of Delaware, or if such court is unavailable, the Delaware Chancery Court for the purposes of any suit, action or other proceeding arising out of or relating to this Agreement, the Acquisition or the other transactions contemplated by this Agreement. Each party hereby waives formal service of process and agrees that service of any process, summons, notice or document by U.S. registered mail to such party's address set forth above shall be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction in this Section 9.8. Each party irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of or relating to this Agreement, the Acquisition or the other transactions contemplated by this Agreement in the United States District Court for the District of Delaware, or the Delaware Chancery Court and hereby and thereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

9.9 Governing Law

This Agreement (and any claims or disputes arising out of or related to this Agreement or to the transactions contemplated by this Agreement or to the inducement of any party to enter into this Agreement, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall in all respects be governed by and construed in accordance with the laws of the State of Delaware, including all matters of construction, validity and performance, in each case without reference to any conflict of law rules that might lead to the application of the laws of any other jurisdiction. Each party to this Agreement further agrees that the laws of the State of Delaware bear a reasonable relationship to this Agreement and irrevocably and unconditionally waives any objection to the application of the laws of the State of Delaware to any action, suit or proceeding arising out of this Agreement, the Acquisition or the other transactions contemplated by this Agreement and further irrevocably and unconditionally waives and agrees not to plead or claim that any such action, suit or proceeding should not be governed by the laws of the State of Delaware.

9.10 Waiver of Jury Trial

EACH PARTY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) DIRECTLY OR INDIRECTLY RELATING TO ANY DISPUTE ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE ACQUISITION OR ANY TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other party have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 9.10.

* * *

IN WITNESS WHEREOF, Seller and Purchaser have duly executed this Agreement as of the date first written above.

KELDA GROUP INC.

by



Name: Charles V. Firlotte
Title: President

MACQUARIE UTILITIES INC.

by

Name: Andrew Ancone
Title: President

by

Name: Benjamin Perham
Title: Director

SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT, DATED AS OF FEBRUARY 24, 2006

IN WITNESS WHEREOF, Seller and Purchaser have duly executed this Agreement as of the date first written above.

KELDA GROUP INC.

by

Name: Charles V. Firlotte
Title: President

MACQUARIE UTILITIES INC.

by


Name: Andrew Ancone
Title: President

by

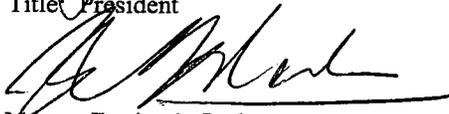

Name: Benjamin Perham
Title: Director

EXHIBIT A
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EXHIBIT B
FORM OF KELDA GUARANTEE

KELDA GROUP PLC, a public limited company organized under the laws of England & Wales (**Kelda**) irrevocably guarantees each and every representation, warranty, covenant, agreement and other obligation of **KELDA GROUP INC.**, a Delaware corporation (**Seller**), or any of its permitted assigns, under the Stock Purchase Agreement, dated as of February 24, 2006 (the **Agreement**), by and between Seller and **MACQUARIE UTILITIES INC.**, a Delaware corporation (**Purchaser**), and the full and timely performance of Seller's obligations under the provisions of the Agreement. This is a guarantee of payment and performance, and not of collection, and Kelda acknowledges and agrees that this guarantee is full and unconditional, and no release or extinguishment of Seller's obligations or liabilities (other than in accordance with the terms of the foregoing Agreement), whether by decree in any bankruptcy proceeding or otherwise, shall affect the continuing validity and enforceability of this guarantee, as well as any provision requiring or contemplating performance by Kelda.

Kelda hereby waives, for the benefit of Purchaser, (1) any right to require Purchaser, as a condition of payment or performance by Kelda, to proceed against Seller or pursue any other remedy whatsoever and (2) to the fullest extent permitted by law, any defenses or benefits that may be derived from or afforded by law that limit the liability of or exonerate guarantors or sureties, except to the extent that any such defense is available to Seller.

Without limiting in any way the foregoing guarantee, Kelda covenants and agrees to take all actions to enable Seller to adhere to each provision of the Agreement that requires an act or omission on the part of Kelda.

The provisions of Article 9 of the Agreement are incorporated herein, *mutatis mutandis*, except that notices and other communications hereunder to Kelda shall be delivered to:

Kelda Group plc
Western House
Halifax Road
Bradford BD6 2SZ, United Kingdom
Telephone Number: +44 1274 600 111
Facsimile Number: +44 1274 608 608

Attention: Philip Hudson

Kelda understands that Purchaser is relying on this guarantee in entering into the Agreement and may enforce this guarantee as if Kelda were a party to the Agreement.

IN WITNESS WHEREOF, Kelda has executed this Guarantee as of this 24th day of February, 2006.

KELDA GROUP PLC

by

Name: Philip Hudson
Title: Group Company Secretary

MACQUARIE UTILITIES INC.

by

Name: Andrew Ancone
Title: President

by

Name: Benjamin Perham
Title: Director

EXHIBIT C
INTEGRATION COMMITTEE

- Both Purchaser and Company will commit the equivalent of 3/4 full time people to the transition efforts (the **Transition Team**)
- The Transition Team will be located at Company's facilities and will have access, consistent with the terms of this Agreement to Company personnel and records
- Company will provide free of charge appropriate office facilities to the Transition Team
- The Transition Team will not directly or indirectly interfere with the day to day running of the business of Company
- The Transition Team will liaise with the existing Company management team and focus upon Company's business plan, including matters relating to Company's financial and customer information management systems
- The Transition Team will meet with the Integration Committee on a biweekly basis, to share their thoughts and suggestions
- Where appropriate, the Transition Team will make recommendations to the Integration Committee
- As required the Integration Committee will review and where appropriate endorse proposals from the Transition Team to sanction certain decisions that need to be made in advance of Closing

SELLER DISCLOSURE SCHEDULE**in connection with the
STOCK PURCHASE AGREEMENT****between****KELDA GROUP INC.****and****MACQUARIE UTILITIES, INC.****dated as of February 24, 2006**

Unless otherwise defined in this Disclosure Schedule, all capitalized terms used herein shall have the meanings ascribed to them in the Stock Purchase Agreement between Kelda Group Inc. and Macquarie Utilities, Inc. dated as of February 24, 2006 (the **Agreement**). The information disclosed herein is subject to the terms of the Confidentiality Agreement and Section 5.3 of the Agreement and should not be used for any purpose other than those contemplated thereby.

This Disclosure Schedule is qualified in its entirety by reference to the specific provisions of the Agreement, and no information contained herein is intended to constitute, and shall not constitute, any representation or warranty except to the extent expressly provided in the Agreement. Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected in the Disclosure Schedule. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. Neither the specification of any dollar amount in any representation or warranty nor the inclusion of any specific item herein is intended to imply that such amounts, higher or lower amounts, the items so included or other items, are or are not material, and neither party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item herein in any dispute or controversy between the parties as to whether any obligation, item or matter is or is not material or may or may not constitute an event or condition that could be considered to have a Company Material Adverse Effect.

Any matter disclosed in one section is also deemed disclosed for purposes of all other sections in Article 3 with respect to which the relevance of such matter is readily apparent.

Section 2.3
Other Regulatory Approvals

- **Connecticut**

Connecticut Department of Public Utility Control approval.

Written notice to the Connecticut Department of Health with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Written notice to the Connecticut Department of Environmental Protection with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Compliance with Connecticut Transfer Act (not a condition to Closing and no approval required prior to closing) with respect to certain Aquarion Water Company of Connecticut water treatment facilities.

- **Massachusetts**

Written notice to the Massachusetts Department of Environmental Protection with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Written notice to the Massachusetts Department of Telecommunications and Energy. Not a condition to Closing and no approval required prior to Closing.

Written notice to the Massachusetts Department of Insurance in connection with transfer of Aquarion Safety Valve Company submitted after Closing. Not a condition to Closing and no approval required prior to Closing.

Written notice to the Massachusetts Health Department with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

- **New York**

New York Public Service Commission approval.

Written notice to the New York Department of Environmental Protection with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Written notice to the Westchester County and Nassau County Health Departments with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc .

Written notice to the New York State Health Department with respect to permits or licenses as applicable. Not a condition to Closing. Provided to agency promptly after Closing and no approval required prior to Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

- **New Hampshire**

New Hampshire Public Service Commission approval.

Written notice to the New Hampshire Department of Environmental Protection with respect to permits or licenses as applicable. Not a condition to Closing and no approval required prior to Closing. Provided to agency promptly after Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Written notice to the New Hampshire Health Department with respect to permits or licenses as applicable. Not a condition to Closing. Provided to agency promptly after Closing and no approval required prior to Closing. Agency may request submission of application for approval of transfer of permits, licenses, etc.

Section 2.4
Litigation

Ongoing examination by the Internal Revenue Service (“IRS”) of the Company’s 2001, 2002 and 2003 federal tax returns, as further described in Section 3.14 of this Seller Disclosure Schedule. Significant matters under review by the IRS include the 2001, 2002 and 2003 charitable contribution deductions taken with regard to the sales of land and land easements. Company files consolidated return with Seller.

Section 3.1(a)
Organization and Good Standing

<i>Company Name</i>	<i>State of Incorporation</i>	<i>States Doing Business as a Foreign Corporation</i>
Aquarion Company	DE	CT, MA
Aquarion Water Company	CT	
Aquarion Water Company of Connecticut	CT	
Aquarion Water Company of New York, (Inc.)	NY	
Aquarion Water Company of New Hampshire, (Inc.)	NH	
Aquarion Water Company of Massachusetts, (Inc.)	MA	
Aquarion Water Capital of Massachusetts, (Inc.)	DE	MA
Aquarion Water Company of Seacliff, (Inc.)	NY	
Aquarion Safety Valve Company	DE	CT, MA, NY, NH, RI, WA

Section 3.1(b)
Subsidiaries

Aquarion Water Company
Aquarion Water Company of Connecticut
Aquarion Water Company of New York
Aquarion Water Company of New Hampshire
Aquarion Water Company of Massachusetts
Aquarion Water Capital of Massachusetts
Aquarion Water Company of Seacliff
Aquarion Safety Valve Company

Section 3.1(c)
Retained Entities

Aquarion Services Company
Main Street South Corporation
Clocktower Partnership
Aquarion Operating Services Company
Timco, Inc.*
Aquarion Engineering Service Company*
Grimes Environmental, Inc.*
YWC, Inc.*
Diversified Pumping Services, Inc.*
Interim Dewatering Services, Inc.*

*Dissolved

Section 3.1(d)
Certificates of Incorporation; Bylaws

Certificates of Incorporation and Bylaws attached.

Section 3.2
Capital Stock

(a) List of Capital Stock of Each Subsidiary

- **Aquarion Water Company**

There are 20,000 authorized shares of common stock, of which 1,000 has been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Company.

- **Aquarion Water Company of Connecticut**

There are 2,000,000 authorized shares of common stock, par value \$10, 1,009,385 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Water Company.

- **Aquarion Water Company of Massachusetts**

There are 50,000 authorized shares of common stock, par value \$100 per share, 37,571 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Water Company.

- **Aquarion Water Capital of Massachusetts**

There are 1,000 authorized shares of common stock, par value \$0.01, 100 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion .

- **Aquarion Water Company of New Hampshire**

There are 100,000 authorized shares of common stock, par value \$25, 87,483 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Water Company.

There are 28 outstanding shares of 6% Cumulative Preferred Stock of the Aquarion Water Company of New Hampshire, par value \$100. Of the outstanding shares, 5 are held each by James Miller, Jacqueline G. Cheney and Merrill Lynch, 13 are held by Cede & Co.

- **Aquarion Water Company of New York**

There are 20,000 authorized shares of common stock, par value \$100, 16,850 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Water Company.

There are 10,000 authorized shares of preferred stock, par value \$100, all of which have been issued and are outstanding, and none of which have voting rights prior to a default in dividends. All of the issued and outstanding preferred stock is owned by First Colony Life Insurance Company.

- **Aquarion Water Company of Sea Cliff**

There are 500 authorized shares of common stock, par value \$50, 499 of which have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Water Company.

- **Aquarion Safety Valve Company**

There are 1,500 authorized shares of common stock, no par value, of which 1,500 have been issued and are outstanding. All of the issued shares of common stock are owned by Aquarion Services Company.

(b) Exceptions to Representations Made in Section 3.2

Please refer to the Affidavit of Amendment to the Record of Organization of The Hampton Water Works Company, dated April 15, 1968, for a description of rights associated with ownership of the Aquarion Water Company of New Hampshire 6% Cumulative Preferred Stock.

Please refer to the Certificate of Amendment of the Certificate of Incorporation of Port Chester Water Works, Inc., filed with the Department of State on October 26, 1993, the Certificate of Amendment of the Certificate of Incorporation filed with the Department of State of New York on June 4, 1993 and New York-American Water Company Re: \$1,000,000 Cumulative Preferred Stock, Series B, 7.67%, due January 1, 2008..

Please refer to the Stock Pledge Agreement dated as of July 1, 1995 between American Water Works Company, Inc. (predecessor to Aquarion Water Company) and First Fidelity Bank, National Association, as trustee, pursuant to which American Water Works pledged 100% of the common stock of Massachusetts Capital Resources, Inc. (predecessor to Aquarion Water Capital of Massachusetts) as further security for payment of the Mortgage Bonds (as defined therein).

(c) List of Equity Ownership Interests

<u>Symbol</u>	<u>Description</u>	<u>Number of Shares</u>
AWR	American States Water Company	600.000
WTR	Aqua America, Inc.	390.000
WTR	PSC exchange for Consumers Water	837.000
CWT	California Water Service	200.000
CTWS	Connecticut Water Service	225.000
MSEX	Middlesex Water Company	200.000
NI	Nisource, Inc.	162.000
SJW	SJW Corporation	300.000
SWWC	Southwest Water Company	474.000
TORW	Torrington Water	334.000
CTWS	Connecticut Water	25.000
	Neco Enterprises	100.000
BIRM	Birmingham Utilities Inc.	2,837.852
	Clocktower Place – Phase II Limited Partnership	\$2.225 M

Section 3.3
No Conflicts; Consents

None.

Section 3.4
Financial Statements

(a) Copies of the financial statements described in Section 3.4(a) of the Stock Purchase Agreement are attached hereto.

(b) Internal Revenue Service Audit, described further in Section 3.14 of this Seller Disclosure Schedule.

Potential liabilities or obligations of the Retained Entities, for which no Company or Subsidiary will be responsible upon Closing.

(c) List of Indebtedness:

- See Section 3.8 for a list of certain documents relating to certain of the outstanding debt listed in the attached table:

Aquarion Company and Subsidiaries
Debt Obligations and Preferred Stock

	<u>In Thousands</u>	<u>January 1, 2006</u>
	Notes payable – unsecured	
AWC CT	6.58% senior notes due August 15, 2012	\$20,000
AWC CT	5.00% note due July 1, 2032	7,000
AWC CT	4.50% note due August 1, 2035	16,570
AWC CT	4.40% note due August 1, 2029	21,830
AWC CT	4.55% note due August 1, 2035	9,900
AWC CT	6.15% note due April 1, 2035	30,000
AWC CT	6.00% note due September 1, 2036	30,000
AWC CT	5.00% note due July 1, 2038	18,000
AWC CT	11.00% convertible debentures	102
AWC CT	4.11% State of Connecticut Revolving Fund	319
AWC MA	0.00% MWPAT Drinking Water Fund (guaranteed by Company)	3,102
	Secured Debt	
AWC CT	6.43% senior note due June 29, 2034	8,500
AWC CT	7.33% series due December 1, 2027	14,000
AWC CT	8.04% series due February 1, 2030	3,500
AWC CT	9.29% series due April 1, 2031	4,500
AWC NY	8.85% series due November 1, 2015	2,500
AWC MA	7.71% series due June 1, 2023	7,000
AWC MA	9.64% series due September 1, 2021	1,400
AWC NH	7.71% series due June 1, 2023	3,000
AWC NH	6.21% series due August 1, 2035	5,900
MA CAP	6.25% series due December 1, 2010	2,090
MA CAP	6.60% series due December 1, 2015	2,850
MA CAP	6.75% series due December 1, 2020	3,925
MA CAP	6.75% series due December 1, 2025	5,450
MA CAP	6.90% series due December 1, 2029	5,850
MA CAP	6.95% series due December 1, 2035	12,330
		<hr/> \$239,618
	Short-term borrowings – bank (Bank of America \$30,000,000 credit line)	14,000
	Intercompany payable Main Street South Corporation	1,700
	Intercompany payable Kelda Group, Inc.	6,928
	Sub Total	<hr/> \$262,246
	Letter of Credit - Travelers Insurance Company	1,135
	Total Indebtedness at January 1, 2006	<hr/> <hr/> \$263,381
	Preferred Stock	
AWCNY	7.67% Series B 10,000 shares, due January 1, 2008	1,000
AWCNH	6.00% , 30 shares	3
		<hr/> <hr/> \$1,003

(d) The aggregate cash balances of Company and Subsidiaries as of December 31, 2005 is \$37.092 million.

Section 3.5
Title to Property

None except the Liens of the Subsidiaries' respective mortgage indentures, listed in Section 3.8.

Section 3.6
Real Property

- a) None except: (i) the Liens of the Subsidiaries' respective mortgage indentures referenced in Section 3.8 of this Seller Disclosure Schedule; (ii) Pursuant to the major sale of its land to the State of Connecticut that closed on March 28, 2002 (the "Land Sale Transaction"), Aquarion Water Company of Connecticut granted a conservation easement to the State of Connecticut on all of its Class I Land; (iii) Pursuant to the Land Sale Transaction, the State has an option on Aquarion Water Company of Connecticut land presently under water if ever drained by Aquarion; (iv) under the Declaration of Restrictive Covenants, again pursuant to the Land Sale Transaction, Aquarion Water Company of Connecticut must convey to the State any improved property which is hereafter abandoned; (v) the title to an office building located in Billerica, Massachusetts is defective, and is presently being corrected through bankruptcy court action.

Section 3.7
Intellectual Property

None.

Section 3.8
Material Contracts

1. Purchase Water Agreement between South Central Connecticut Regional Water Authority and BHC
2. Interconnection Agreement between Torrington Water Company and BHC
3. Purchase Water Agreement between Westchester Joint Water Works and Port Chester Water Works
4. Deloitte Annual Engagement
5. Dworken, Hillman, LaMorte & Sterczala P.C. Agreement (accountants)
6. Agreement between O& G Industries and Aquarion Water Company of Connecticut (Eddy Wellfield Improvements).
7. Agreement between C.H. Nickerson & Company, Inc. and Aquarion Water Company of Connecticut (Treatment Facilities Program Contract)
8. Construction Contract between Aquarion Water Company of Connecticut and A.J. Penna & Son Construction Inc. (Annual Contract for Miscellaneous Water Works Installations)
9. Construction Contract between Aquarion Water Company of Connecticut and Burns Construction Co., Inc. (Annual Contract for Miscellaneous Water Works Installations)
10. Construction Contract between Aquarion Water Company of Connecticut and Joken Development Corp. (Annual Contract for Miscellaneous Water Works Installations)
11. Construction Contract between Aquarion Water Company of Connecticut and R. H. White Construction Co., Inc. (Annual Contract for Miscellaneous Water Works Installations)
12. Ernst & Young Annual Engagement
13. Engineering Contract between Aquarion Water Company of Connecticut and Tighe & Bond (Palmer Dam Repairs)
14. Amendment to Engineering Contract between Aquarion Water Company of Connecticut and Tighe & Bond (Palmer Dam Repairs)
15. Financing Documents

A. Aquarion Water Capital of Massachusetts

- (i) Indenture of Mortgage and Security Agreement dated 7/1/95 (Mass Capital Resources Co and First Fidelity Bank)
- (ii) Facility Sale and Agreement dated 7/1/95 (Massachusetts-American Water Company)
- (iii) Facility Lease Agreement between Massachusetts Capital Resources Company and Massachusetts-American Water Company, dated as of 7/1/95
- (iv) Ground Lease dated as of 7/1/95 between Massachusetts Capital Resources Company and Massachusetts-American Water Company as a party
- (v) Loan and Trust Agreement dated 7/1/95 (Massachusetts Industrial Finance Agency and Fidelity Bank)
- (vi) Bond Purchase Agreement, Series 1995, dated 7/26/95 between Smith Barney Inc., Massachusetts Industrial Finance Agency and Massachusetts Capital Resource Company, for \$37,700,000 Massachusetts Industrial Finance Agency Water Treatment Revenue Bonds (Massachusetts-American Hingham Project) Series 1995
- (vii) Offering Memorandum for \$37,700,000 Series 1995 Massachusetts Industrial Finance Agency
- (x) Pledge Agreement dated as of 7/1/95 from American Water Works to the Mortgage Trustee
- (xi) Preliminary Official Statement dated 7/14/95 Relating to the \$37,700,000 Massachusetts Industrial Finance Authority Water Treatment Revenue Bonds (Massachusetts-American Hingham Project) Series 1995

B. Aquarion Water Company of Massachusetts

- (i) Indenture of Mortgage from Massachusetts-American Water Company, Inc. (then known as Hingham Water Company) to First Fidelity Bank, N.A., Pennsylvania, dated as of 3/1/71
- (ii) Massachusetts-American Water Company to Fidelity Bank, N.A., Fourth Supplemental Indenture, dated as of 11/1/91
- (iii) Massachusetts-American Water Company Bond Purchase Agreement, Dated as of 11/1/91

(iv) Massachusetts-American Water Company to First Fidelity Bank, N.A., Pennsylvania, Fifth Supplemental Indenture, dated as of 10/1/93

(v) Massachusetts-American Water Company Bond Purchase Agreement, Dated as of 10/1/93

(vi) Massachusetts-American Water Company to First Fidelity Bank, N.A., Sixth Supplemental Indenture dated 7/1/95

(vii) Massachusetts-American Water Company \$3,000,000 General Mortgage Bonds, 7.48% Series

(viii) Massachusetts-American Water Company to First Union National Bank Seventh Supplemental Indenture dated 1/1/98

(ix) Massachusetts-American Water Company \$1,400,000 General Mortgage Bonds, 9.64% Series

(x) Massachusetts Water Pollution Abatement Trust Drinking Water Program Loan Agreement, dated 2/21/03 between Massachusetts Water Pollution Abatement Trust and Aquarion Water Company of Massachusetts

(xi) Project Regulatory Agreement, dated 8/1/02 between Department of Environmental Protection and Aquarion Water Company of Massachusetts

C. Aquarion Water Company of New Hampshire

(i) Hampton Water-Works Company to The Fidelity Bank, as Trustee, Indenture of Mortgage, dated as of 5/1/68, General Mortgage Bonds

(ii) Hampton Water-Works Company to the Fidelity Bank First and Second Supplemental Indentures of Mortgage

(iii) Hampton Water-Works Company to First Fidelity Bank, NA, Fifth Supplemental Indenture, dated as of 6/1/89

(iv) Hampton Water-Works Company Bond Purchase Agreement dated 6/1/89 for \$1,800,000 General Mortgage Bonds 9.92% Series

(v) Hampton Water-Works Company to First Fidelity Bank, N.A., Pennsylvania, Sixth Supplemental Indenture, dated as of 7/1/93

(vi) Hampton Water Works Company Bond Purchase Agreement dated 7/1/93 for \$3,000,000 General Mortgage Bonds 7.71% Series

(vii) Aquarion Water Company of New Hampshire, Inc. to Wachovia Bank, N.A. Eighth Supplemental Indenture dated 8/1/05

(viii) Aquarion Water Company of New Hampshire Bond Purchase Agreement dated as of 8/1/05 for \$5,900,000 General Mortgage Bonds 6.21% Series

(viii) Hampton Water Works Company Bond Purchase Agreement for \$2,700,000 General Mortgage Bonds 7.48% Series

D. Aquarion Water Company of New York

(i) Port Chester Water Works, Inc. to The Fidelity Bank Indenture of Mortgage dated 3/1/72

(ii) New York-American Water Company, Inc. to Fidelity Bank, N.A., Third Supplemental Indenture, dated as of 11/1/90

(iii) Indenture of Trust between New York State Environmental Facilities Corporation and Bankers Trust Company, as Trustee, Dated as of November 1, 1990, Re. \$2,500,000 Water Facilities Revenue Bonds (New York-American Water Company, Inc. Project), Series 1990

(iv) Loan Agreement, dated as of 11/1/90, between Environmental Facilities Corporation and Aquarion Water Company of New York

E. Aquarion Water Company of Connecticut

(i) Indenture of Mortgage from Bridgeport Hydraulic Company to City Trust Company, Trustee, dated as of 6/1/24, as amended and restated in Seventeenth Supplemental Mortgage, dated as of 9/1/60, and as amended by Twenty-First Supplemental Mortgage, dated as of 3/1/75

(ii) Indenture of Mortgage from Greenwich Water Company to The Fidelity Bank, as Trustee, dated as of 5/1/68

(iii) Connecticut-American Water Company and First Colony Life Insurance Company Bond Purchase Agreement, dated as of 7/1/89

(iv) Connecticut-American Water Company (formerly Greenwich Water Company) to Fidelity Bank, N.A., Ninth Supplemental Indenture, dated as of 4/1/91

(v) Connecticut-American Water Company Bond Purchase Agreement, dated as of 4/1/91

(vi) Connecticut-American Water Company to First Union National Bank, as Trustee, Eleventh Supplemental Indenture, Dated as of 12/1/97

- (vii) Connecticut-American Water Company Bond Purchase Agreement, dated as of 12/1/97
- (viii) Connecticut-American Water Company, Twelfth Supplemental Indenture, dated as of 2/1/00
- (ix) Connecticut-American Water Company Bond Purchase Agreement, dated as of 2/1/00
- (x) The Village Water Company of Simsbury 11% Convertible Subordinated Debenture dated 7/1/95
- (xi) Indenture of Trust, dated as of 4/1/95, between Connecticut Development Authority and Shawmut Bank Connecticut, National Association
- (xii) Loan Agreement, dated as of 4/1/95, between Connecticut Development Authority and Bridgeport Hydraulic Company
- (xiii) Bond Purchase Agreement among Connecticut Development Authority, Bridgeport Hydraulic Company and Smith Barney and Advest, Inc. dated 5/10/95
- (xiv) Indenture of Trust, dated as of 9/1/96, between Connecticut Development Authority and Fleet National Bank
- (xv) Loan Agreement, dated as of 9/1/96, between Connecticut Development Authority and Bridgeport Hydraulic Company
- (xvi) \$20,000,000 6.58% Senior Note Purchase Agreement dated 8/1/02
- (xvii) Indenture of Trust, dated as of 8/1/02, between the Connecticut Development Authority and State Street Bank and Trust Company
- (xviii) Loan Agreement, dated as of 8/1/02, between the Connecticut Development Authority and Aquarion Water Company of Connecticut
- (xix) Purchase Contract, dated 7/24/02, among the Connecticut Development Authority, Aquarion Water Company of Connecticut, Edward D. Jones & Co., L.P.
- (xx) Purchase Contract, dated 11/13/03, among the Connecticut Development Authority, Aquarion Water Company of Connecticut, A.G. Edwards & Sons, Inc.
- (xxi) Loan Agreement, dated as of 11/1/03 between the Connecticut Development Authority and Aquarion Water Company of Connecticut

(xxii) Indenture of Trust, dated as of 11/1/03, between the Connecticut Development Authority and U.S. Bank National Association

(xxiii) Note Purchase Agreement dated as of 6/29/04 between Aquarion Water Company of Connecticut and Hartford Life Insurance Company

(xxiv) Purchase Contract dated 8/24/05 among the Connecticut Development Authority, Aquarion Water Company of Connecticut, and Edward D. Jones & Co., L.P.

(xxv) The Indenture of Trust dated as of 8/1/05, between the Connecticut Development Authority and U.S. Bank National Association, as trustee

(xxvi) The Loan Agreement dated as of 8/1/05, between the Connecticut Development Authority and Aquarion Water Company of Connecticut

- F. Aquarion Company
 - (i) Guarantee of Bridgeport WPCA Contract
 - (ii) Guarantee of AWC Massachusetts MWPAT Loan
- 16. Southwest Regional Pipeline Agreement
- 17. Agreement between Aquarion Water Company of Connecticut and Eastwoods, LLC re: water main extension and tank
- 18. Agreement between Aquarion Water Company of Massachusetts and Cohasset/Ericson for Water Supply
- 19. Water Supply Contract between New York American Water Company and Connecticut American Water Company
- 20. Software License Agreement between Aquarion Company, Inc. and SAP America, Inc.
- 21. Sublease between The Southern Connecticut Gas Company and Aquarion Water Company of Connecticut
- 22. Master Services Agreement between Aquarion Company, Inc. and TUI Consulting, Inc.
- 23. Water Purchase Agreement between Aquarion Water Company of Massachusetts and the City of Worcester, MA
- 24. Stamford WTP Design Contract with Hazen and Sawyer
- 25. Eddy Well Field Construction Services Contract with O&G Industries

26. Sodium Hypochlorite and Caustic Soda Agreement (Purchase Orders) with Borden & Remington.
27. SBC Integrated Services Agreement
28. Coagulation Chemicals Contract with Holland Chemical
29. Laboratory Services Contract with South Central Connecticut Regional Water Authority

Section 3.9
Permits

None

Section 3.10
Environmental Matters

1. Croton Point Landfill. The State of New York named the New York-American Water Company, Inc. (now Aquarion Water Company of New York) as a potentially responsible party (“PRP”) for the closing and environmental remediation of the Croton Point Landfill in Croton-On-Hudson, New York (the “Site”). The state sought to recover the cost of closing the Site, remediating contamination and ongoing monitoring. The Company is included in Tier 3 of the PRP group. Tier 3’s total overall allocated share of the ultimate cost is currently set at 10%. Based on the current allocation scheme, Aquarion-New York’s share of the Site is 1.11%. Aquarion has paid its settlement amount and executed the consent decree with the state. This matter has now been settled with the State of New York and is therefore concluded.

2. DEP–Putnam Lake. The Connecticut Department of Environmental Protection has ordered AWC-CT to study remedies, including the potential removal of sediment from, Putnam Lake, the middle of three reservoirs which supply the public drinking water system for the former Connecticut American Water Company properties and to provide progress reports regarding same. The Water Company has discharged sediment into Putnam Lake for approximately 40 years. Although this practice was discontinued in 1993, the DEP wants AWC-CT to remove this sediment. AWC-CT has requested that DEP postpone a decision on the remedy until 2008 while studies are done on the lake. Pursuant to a Consent Order (WC 5203) for dam repair, Aquarion Water Company of Connecticut has provided the Connecticut Department of Environmental Protection with monthly progress reports.

3. Aquarion Water Company of Massachusetts/Millbury Well Contamination. Aquarion Water Company of Massachusetts has recently negotiated and signed an administrative consent order with the Massachusetts Department of Environmental Protection resolving an issue involving the presence of small amounts of perchlorate at certain of the Company’s water supply wells in Millbury, Massachusetts. The Company took those wells off line after the initial perchlorate detections. The Company has since constructed a state-of-the-art ion exchange treatment facility and returned these wells to service. Subsequent sampling has not detected any perchlorate in the distribution system or treated water supply. The Company is very close to settling the cost of a substantial portion of the recovery action with the alleged responsible parties which would reimburse the Company for costs incurred to date as well as future operation and maintenance costs for the treatment system. Implementation and operational costs for this treatment system will be in excess of \$1,000,000 which the Company hopes to recover from the responsible party or parties.

With respect to Section 3.10(b), see Section 2.3 of this Seller’s Disclosure Schedule, Other Regulatory Approvals, but only as to actions to be taken with respect to various state and local health departments, state environmental agencies, and the Connecticut Transfer Act.

Section 3.11
Water Quality

Aquarion Water Company of Massachusetts/Millbury Well Contamination. Aquarion Water Company of Massachusetts has recently negotiated and signed an administrative consent order with the Massachusetts Department of Environmental Protection resolving an issue involving the presence of small amounts of perchlorate at certain of the Company's water supply wells in Millbury, Massachusetts. The Company took those wells off line after the initial perchlorate detections. The Company has since constructed a state-of-the-art ion exchange treatment facility and returned these wells to service. Subsequent sampling has not detected any perchlorate in the distribution system or treated water supply. The Company is very close to settling a cost recovery action with the alleged responsible parties which would reimburse the Company for a substantial portion of the costs incurred to date as well as future operation and maintenance costs for the treatment system. Implementation and operational costs for this treatment system will be in excess of \$1,000,000 which the Company hopes to recover from the responsible party or parties.

Aquarion Water Company of New York/Purchase of Unfiltered Surface Water from WJWW. Aquarion Water Company of New York purchases water from the Westchester Joint Water Works ("WJWW") on a daily basis in order to meet system demands. This purchased water does not meet the EPA and NY State regulatory requirements for the provision of filtration treatment of surface waters. WJWW has been ordered by NY State to provide this filtration treatment and anticipates that they will be in compliance by 12/31/07. Meanwhile, Aquarion Water Company of New York is notifying the customers on a quarterly basis of this situation, and will continue to do so until WJWW has achieved full compliance. Aquarion Water Company of New York payments in 2004 and 2005 for such water were \$798,000 and \$840,775, respectively.

Section 3.12
Insurance

Commercial General Liability

Travelers Indemnity Co.

Policy # TJ EXGL 185K7395-04 Term: 12/01/05-12/01/06

Amounts:

- \$ 700,000 Each Occ.
- \$ 5,000,000 General Agg.
- \$ 700,000 Product Agg.
- \$ 700,000 Personal & Adv. Inj.
- \$ 300,000 Fire Damage Liability
- \$ 5,000 Medical Payment
- \$ 200,000 S.I.R.

Automobile Liability

Travelers Indemnity Co.

Policy # TC2J CAP 185K2652-04 Term: 12/01/05-12/01/06

Amounts:

- \$ 1,000,000 CSL each Occ.
- \$ 5,000 Medical Payment
- \$ 1,000 Comprehensive Deductible ea. Auto
- \$ 1,000 Collision Deductible ea. Auto

Workers Compensation

Travelers Indemnity Co.

Policy # TC2N UB 185K7414-04 (All States) Term: 12/01/05-12/01/06

Employers Liability

Amounts:

- \$1,000,000 Each Accident
- \$1,000,000 Disease (Policy Limit)
- \$1,000,000 Disease (Each Empl.)
- \$ 250,000 Deductible

Travelers Indemnity Co.

Policy # TRJ UB 1002A268-04 Term: 12/01/05-12/01/06

Employers Liability (Retro) (MA only)

Amounts:

- \$1,000,000 Each Accident
- \$1,000,000 Disease (Policy Limit)
- \$1,000,000 Disease (Each Empl.)
- \$ 250,000 Deductible

Excess Liability – Claims-Made

AEGIS

Policy # X2256A1A05 Term: 12/01/05-12/01/06

Amounts:

\$35,000,000 Occurrence

\$35,000,000 Aggregate

Directors and Officers

AIG Europe [UK] Limited

Policy # 33621224 Term: 04/01/05 – 03/31/06

Amounts:

£15,000,000

\$100,000 Deductible

Directors and Officers

Markel [UK] Limited

Policy # SD202J98A550/2 Term: 04/01/05 – 03/31/06

Amount:

£10,000,000

Directors and Officers

ACE & Others

Policy # 576/MJ9557400 Term: 04/01/05 – 03/31/06

Amount:

£25,000,000

Employment Practice Liability

AIG Europe [UK] Limited

Policy # 33623255 Term: 04/01/05 – 03/31/06

Amounts:

£1,500,000

\$250,000 Deductible

Excess Public and Product Liability

AIG Europe [UK] Limited

Policy # 32621306 Term: 04/01/05 – 03-31/06

Amount:

\$14,000,000

Special Contingency

Special Contingency Risks Limited

Contract # 3006 Term: 04/01/05 – 03/31/06

The Company has had one instance where coverage has been denied due to failure to make a timely claim with the insurance company. The Company believes that this situation would not have a Company Material Adverse Effect.

Completion of the acquisition may result in the termination or loss of coverage under certain of the Company insurance policies (for example, policies with "Claims Made Wording", namely Professional Liability, Crime, Workers Compensation, Directors and Officers and Employment Practice Liability will require run-off cover if the existing underwriters cease to provide cover for Aquarion on completion of sale), but the Company does not believe that any such termination or loss of coverage would, individually or in the aggregate, have a Company Material Adverse Effect.

Section 3.13**Taxes**

3.13(b)(ii) Ongoing examination by the Internal Revenue Service (“IRS”) of the Company’s 2001, 2002 and 2003 federal tax returns, as further described in Section 3.14 of this Seller Disclosure Schedule. Significant matters under review by the IRS include the 2001, 2002 and 2003 charitable contribution deductions taken with regard to the sales of land and land easements.

The New Hampshire Department of Revenue Administration is challenging Aquarion Water Company of New Hampshire’s state tax filing for the years 2002 and 2003. Aquarion Water Company of New Hampshire files a stand- alone return that bases the taxable income solely on the operating results of that company. The Department is arguing that the tax returns should be filed on a unitary (consolidated) basis.

3.13(b)(v) Statute of limitations remains open with respect to the payment or collection of the Company’s 2001 federal taxes as a result of the tax examination referenced above.

3.13(b)(vii) The Company and each Subsidiary are parties to a Tax sharing arrangement with Seller under which each party surrenders or otherwise distributes the relevant amounts to Seller necessary to pay such party's respective portion of the group's Tax liability.

Section 3.14

Litigation

1. Aquarion Water Company of Massachusetts/Millbury Well Contamination. Aquarion Water Company of Massachusetts has recently negotiated and signed an administrative consent order with the Massachusetts Department of Environmental Protection resolving an issue involving the presence of small amounts of perchlorate at certain of the Company's water supply wells in Millbury, Massachusetts. The Company took those wells off line after the initial perchlorate detections. The Company has since constructed a state-of-the-art ion exchange treatment facility and returned these wells to service. Subsequent sampling has not detected any perchlorate in the distribution system or treated water supply. The Company is very close to settling a cost recovery action with the alleged responsible parties which would reimburse the Company for a substantial portion of the costs incurred to date as well as future operation and maintenance costs for the treatment system. Implementation and operational costs for this treatment system will be in excess of \$1,000,000 which the Company hopes to recover from the responsible party or parties.

2. DEP-Putnam Lake. The Connecticut Department of Environmental Protection has ordered AWC-CT to study remedies, including the potential removal of sediment from, Putnam Lake, the middle of three reservoirs which supply the public drinking water system for the former Connecticut American Water Company properties and to provide progress reports regarding same. The Water Company has discharged sediment into Putnam Lake for approximately 40 years. Although this practice was discontinued in 1993, the DEP wants AWC-CT to remove this sediment. AWC-CT has requested that DEP postpone a decision on the remedy until 2008 while studies are done on the lake. Pursuant to a Consent Order (WC 5203) for dam repair, Aquarion Water Company of Connecticut has provided the Connecticut Department of Environmental Protection with monthly progress reports.

3. Timber Trails Community Service Corporation – Water Division v. Department of Public Utility Control and Department of Public Health, Docket No. CV 02-051-5732 (Conn. Super. New Britain; Administrative Appeals. The Connecticut Department of Public Utility Control ("DPUC"), in a decision issued in 2002, granted a petition filed by Aquarion Water Company of Connecticut for a supplemental order requiring the transfer of the water company assets of the Timber Trails Water Company to Aquarion Water Company of Connecticut. The DPUC had previously ordered the transfer of these assets and, although Aquarion Water Company of Connecticut had been operating the Timber Trails Water system for several years, Aquarion Water Company of Connecticut did not have good title to the water utility assets and therefore requested the DPUC order issued in 2002. The principals of the Timber Trails Association, which owned all of the water company assets, have appealed from that DPUC decision to the Connecticut Superior Court and this appeal is now pending. The DPUC, supported by Aquarion Water Company of Connecticut, filed a petition under Section 16-10 of the Connecticut General Statutes to the Connecticut Superior Court requesting an order requiring the transfer of the Timber Trails Water Company assets to Aquarion Water Company of Connecticut. Such an order would be issued only if the underlying appeal by the Timber Trails

Association is dismissed. Both Timber Trails' appeal and the DPUC petition are pending and, if they go forward on the merits, will most likely be consolidated before one judge for resolution.

Since the last report, efforts by Aquarion Water Company of Connecticut finalize a settlement stated on the record at the May 12, 2003 Superior Court hearing in which a new well would be located and installed to replace the existing Wells 4 and 6 as a source of supply for the system, terminated abruptly when Timber Trails unexpectedly rejected terms of the proposed settlement implementing aspects of the prior DPUC decision concerning transfer of ownership of portions of other roads located within the sanitary radii of other system wells. At that point, Aquarion and the DPUC reclaimed pending motions to dismiss the appeal for lack of subject matter jurisdiction that had been held in abeyance to permit the parties to consummate the settlement. The Court heard oral arguments on those motions on January 24, 2006. In the course of the argument, the Court encouraged the parties to continue settlement efforts. Aquarion has since communicated a further settlement proposal to Timber Trails, but at this point will seek no further continuances of this matter. No assurance can be given that a settlement will be achieved. If the settlement cannot be consummated, then both matters will proceed. One of the issues raised by Timber Trails is the inadequacy of the compensation provided by the DPUC for the assets to be transferred to Aquarion Water Company of Connecticut. Timber Trails also has discussed a potential inverse condemnation claim resulting from regulatory requirements of the Department of Public Health that treat the transferred water company assets in a manner that may prohibit access for development of other abutting land owned by Timber Trails. Although we believe it unlikely, Aquarion Water Company of Connecticut is potentially subject to a possible Court order as a result of one or both of these potential claims requiring the payment of some undetermined additional amount as compensation for the Timber Trails assets. Aquarion Water Company of Connecticut believes that the assets have, at best, nominal value, and that DPUC rate relief likely would be available to recover any unanticipated amounts that might be awarded to Timber Trails.

4. A-Right Plumbing v. Aquarion Services Company, et al. A-Right Plumbing v. Aquarion Services Company, et al. On January 24, 2005, A-Right Plumbing, Sewer and Water Main Company, LLC filed a lawsuit against Aquarion Operating Services Company, Aquarion Water Company of Connecticut (collectively, "Aquarion"), and South Central Connecticut Regional Water Authority. The counts against all defendants allege violations of the Connecticut Unfair Trade Practices Act. The plaintiff alleges that defendants, including Aquarion, have unfairly competed with A-Right Plumbing for the provision of repair and maintenance services for sewers and water mains. Specifically, the plaintiff claims that Aquarion is using its alleged monopoly position as a provider of water to offer its customers the "Safety Valve" program, which allows the customers to pay a small, fixed monthly fee in exchange for any future repairs of their sewers and water mains. Aquarion intends to defend this lawsuit vigorously. Discovery closed on January 16, 2006, and Aquarion is currently preparing a motion for summary judgment as to all claims. Should that motion be denied, in whole or in part, the case is scheduled for a jury trial in July, 2006. At this point in the proceedings, we cannot estimate with reasonable certainty the likelihood or range of a possible adverse outcome.

5. Internal Revenue Service Audit. The Internal Revenue Service (IRS) is conducting an audit of Aquarion Water Company of Connecticut. The audit is focusing on the tax treatment of the bargain sales in 2001 and 2002 by Aquarion Water Company of

Connecticut's predecessor, BHC Company. The major issue focuses on that company's sale of approximately 500 acres of land to the State of Connecticut in 2001 and nearly 15,000 acres of land and conservation easements to the State of Connecticut and The Nature Conservancy in 2002. Issues the IRS is concerned with include, in particular, the valuation of the conservation easements. Should the IRS determine, as a result of the audit, that Aquarion is entitled to a reduced or no charitable contribution deduction as a result of its donative sale of land and conservation easements, Aquarion Water Company of Connecticut may appeal this determination. Should the IRS prevail after the exhaustion of such appeals, or following the decision by Aquarion Water Company of Connecticut not to appeal, Aquarion Water Company of Connecticut would have to file amended federal and state tax returns. As a result of filing these amended returns, Aquarion Water Company of Connecticut may owe additional taxes for past years. Additionally, Aquarion Water Company of Connecticut may not be entitled to use some or all of its carry over charitable federal income tax deductions in future years, which may result in higher federal and state income taxes for such years.

6. New Hampshire Department of Revenue Administration Tax Audit. The New Hampshire Department of Revenue Administration is challenging Aquarion Water Company of New Hampshire's state tax filing for the years 2002 and 2003. Aquarion Water Company of New Hampshire files a stand-alone return that bases the taxable income solely on the operating results of that company. The Department is arguing that the tax returns should be filed on a unitary (consolidated) basis.

7. 2004 Connecticut DPUC Rate Decision. The Company has filed and is required in the future to file revised items in response to the Order contained in said rate decision. The Company cannot determine whether the DPUC's response to one or more of these filings may have an adverse impact on Aquarion Water Company of Connecticut.

8. 2005 New Hampshire Rate Case. Aquarion Water Company of New Hampshire filed its application for a rate increase with the New Hampshire Public Utility Commission on July 5, 2005. In its application, Aquarion Water Company of New Hampshire is requesting an increase in annual revenues of \$885,000. This request is being considered by the NHPUC in Docket No. DW-05-119. The Company cannot predict the outcome of this proceeding.

Section 3.15
Benefit Plans

3.15 (a)

Pension Plans

Retirement Plan for Employees of Aquarion Company, as amended and restated effective January 1, 1997 and the First, Second, Third, Fourth, Fifth and Sixth Amendments thereto

Pension Plan for Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire, effective as of April 25, 2002, and the First, Second and Third Amendments thereto

The Aquarion Company Employee Savings and Investment Plan, as amended and restated effective December 1, 1998, and the First, Second, Third, Fourth, Fifth, Sixth, Seventh and Eighth Amendments thereto

Savings Plan for Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire, effective as of April 25, 2002, and the First, Second, Third and Fourth Amendments thereto

Welfare Plans

Medical and Dental Plan for Employees of Aquarion Company and its Designated Subsidiaries and related Trust Agreement (plan number 501)

Medical and Dental Plan for Union Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 502)

Retiree Life Plan for Certain Union and NonUnion Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 503)

Aquarion Company Welfare Benefit Plan (plan number 504)

Welfare and fringe benefit coverages included within plan numbers 501, 502, 503 and 504:

CIGNA Open Access Plus (actives and retirees under 65)
CIGNA Medicare Supplement (retirees over 65)
CIGNA Dental (actives and retirees)
EYEMED Vision
CIGNA Prescription Drug (actives and retirees)

Harvard Pilgrim HMO (actives and retirees under 65 in Massachusetts)
 ING/Reliastar Group Life (actives and retirees)
 ING/Reliastar AD&D (actives)
 ING Reliastar LTD
 Short-term disability (self-funded)
 Travelers Companies Travel Accident
 Aquarion Company Employee Assistance Plan
 Employee Assistance Plan for Employees of Aquarion Water Company of Connecticut,
 Aquarion Water Company of Massachusetts, and Aquarion Water Company of New
 Hampshire
 Aquarion Company Educational Assistance Plan
 Educational Assistance Plan for Employees of Aquarion Water Company of Connecticut,
 Aquarion Water Company of Massachusetts, and Aquarion Water Company of New
 Hampshire
 Severance Pay Plan for Employees of Aquarion Water Company of Connecticut,
 Aquarion Water Company of Massachusetts, and Aquarion Water Company of New
 Hampshire
 Associate Enhanced Severance Plan for Employees of Aquarion Water Company of
 Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company
 of New Hampshire
 The Death Benefits Plan for Employees of Aquarion Water Company of Connecticut,
 Aquarion Water Company of Massachusetts, and Aquarion Water Company of New
 Hampshire
 Aquarion Company Flexible Benefits Plan and the First Amendment thereto

Other Benefit Plans

The Aquarion Company Management Incentive Plan

The Aquarion Company Non-Union Employee Bonus Plan

The Kelda Group Long Term Incentive Plan

Director's Retirement Plan of Aquarion Company

Director's Deferred Compensation Plan of Aquarion Company

Supplemental Savings and Retirement Plan of Aquarion Company

The Company is currently providing a cash payment for nonqualified retirement benefits to former employees of Stamford Water Company in the aggregate amount of \$3,933 on a monthly basis from Company assets through the payroll system.

The Company is currently providing a cash payment for supplemental nonqualified retirement benefits to former employees of BHC Company in the aggregate amount of \$727.35 on a monthly basis through Fleet Bank.

Aquarion Company Company-Owned Life Insurance and Salary Continuation Death Benefit for Exempt Employees as of June 1, 1989 (McGregor letter to Exempt Employees dated July 27, 1989)

Letter Agreement dated January 12, 2005 between Aquarion Company and Roland LaPierre for Consulting Services

Letter Agreement dated June 13, 2005 between Aquarion Company and Janet M. Hansen for Consulting Services

Employment Agreement between Aquarion Company and Daniel Neaton dated as of April 23, 1999

Continuity Agreement between Aquarion Company and Daniel Neaton dated as of May 7, 1999

Employment Agreement between Aquarion Company and Larry L. Bingaman dated as of June 11, 1990

Continuity Agreement between Aquarion Company and Larry L. Bingaman dated as of May 7, 1999

Amended and Restated Employment Agreement among Kelda Group plc, Aquarion Company and Charles V. Firlotte dated as of September 1, 2003

Employment Agreement between Aquarion Company and Donald J. Morrissey dated as of August 1, 2005

Employment Agreement between Aquarion Company and Janet Hansen as of January 1, 2001 and the First Amendment to Employment Agreement between Aquarion Company and Janet M. Hansen dated September 1, 2003 (amendment contains provision for spousal medical coverage following employee's death)

Amended and Restated Employment Agreement by and among Kelda Group plc, Aquarion Company and Richard K. Schmidt dated August 8, 2002 (contains provision for additional SERP benefit and spousal medical coverage following employee's death)

It is the practice of the Company to provide a deceased retiree's spouse with medical coverage at the cost of a retiree's premium for one year following the death of the retiree.

Additional employee benefits include: paid vacation, holiday, maternity/paternity, bereavement leave; educational/environmental matching gift program; Silliman scholarships for employee children; wellness program; reimbursements for uniforms and shoes; discounted auto and homeowners insurance.

3.15(b)

The Internal Revenue Service performed a routine audit of the Retirement Plan for Employees of Aquarion Company in 2005. The Service issued a final report dated November 17, 2005 confirming that there would be no further investigation of this Plan.

Applications for exemption filed on Internal Revenue Service Form 1024 are pending and the Internal Revenue Service has requested additional information with respect to the following voluntary employees' beneficiary associations (VEBAs):

Medical and Dental Plan for Union Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 502)

Retiree Life Plan for Certain Union and NonUnion Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 503)

3.15(c)

Prohibited transactions were disclosed in the 2003 and 2004 Form 5500 filings for the Aquarion Company Savings and Investment Plan related to late delivery of employee deferrals to the Aquarion Company Savings and Investment Plan trust. Possible additional prohibited transactions in 2004 related to late delivery of employee deferrals to the Aquarion Company Savings and Investment Plan trust are currently being corrected. The total amount of late-delivered employee deferrals is disclosed on Schedule H of the 2004 Form 5500 for the Plan. The Company is preparing the necessary IRS filings to report the transactions during the latter portion of 2004. Aggregate excise taxes and interest are expected to total in amount less than \$10,000.

3.15(d)

Prohibited transactions were disclosed in the 2003 and 2004 Form 5500 filings for the Aquarion Company Savings and Investment Plan related to late delivery of employee deferrals to the Aquarion Company Savings and Investment Plan trust. Possible additional prohibited transactions in 2004 related to late delivery of employee deferrals to the Aquarion Company Savings and Investment Plan trust are currently being corrected. The total amount of late-delivered employee deferrals is disclosed on Schedule H of the 2004 Form 5500 for the Plan. The Company is preparing the necessary IRS filings to report the transactions during the latter portion of 2004. Aggregate excise taxes and interest are expected to total in amount less than \$10,000.

3.15(h)

The Kelda Group Long Term Incentive Plan provides that in the event of cessation of employment due to the sale of one's employing company or business out of the Kelda group, the

Award will vest but only to the extent to which the performance target has been met up to the calendar quarter day prior to the cessation of employment, and the Award will be pro-rated on the basis of the time elapsed, comparing the time that the award has been outstanding to the envisaged three year vesting period.

The Amended and Restated Employment Agreement among Kelda Group plc, Aquarion Company and Charles V. Firlotte dated as of September 1, 2003 requires the payment of severance and benefits under specified circumstances, including a termination of employment initiated by the executive in the event of a material change in the executive's position or a failure of any successor to Aquarion Company or Kelda Group plc to expressly assume the Agreement.

The Employment Agreement between Aquarion Company and Daniel Neaton dated as of April 23, 1999 and the Continuity Agreement between Aquarion Company and Daniel Neaton dated as of May 7, 1999 require the payment of severance and benefits under specified circumstances, including a termination of employment initiated by the executive in the event of a material change in the executive's position or a failure of any successor to Aquarion Company to expressly assume the Agreement.

The Employment Agreement between Aquarion Company and Larry L. Bingaman dated as of June 11, 1990 and the Continuity Agreement between Aquarion Company and Larry L. Bingaman dated as of May 7, 1999 require the payment of severance and benefits under specified circumstances, including a termination of employment initiated by the executive in the event of a material change in the executive's position or a failure of any successor to Aquarion Company to expressly assume the Agreement.

The Employment Agreement between Aquarion Company and Donald J. Morrissey dated as of August 1, 2005 requires the payment of severance and benefits under specified circumstances, including a termination of employment initiated by the executive in the event of a material change in the executive's position or a failure of any successor to Aquarion Company or Kelda Group plc to expressly assume the Agreement.

3.15(j)

The Aquarion Services Company Pension Plan for Bridgeport Employees incurred an accumulated funding deficiency in 2003 which has been rectified. This plan is sponsored by one of the Retained Entities and neither the Company nor any Subsidiary participates in this plan.

3.15(l)

Company and the Subsidiaries are bound by the Memorandum of Agreement effective August 1, 2005 with the Utility Workers of America, A.F.L. –C.I.O., Local No. 384 and United Steelworkers of America, A.F.L. – C.I.O., Local Nos. 8938, 13492 and 2936 which expires July 31, 2010 (the "Memorandum of Agreement") to maintain the benefits provided therein until the expiration of the Memorandum of Agreement.

The following employment and continuity agreements may not be amended, terminated or otherwise discontinued absent the written agreement of the parties to the agreement:

Employment Agreement between Aquarion Company and Daniel Neaton dated as of April 23, 1999

Continuity Agreement between Aquarion Company and Daniel Neaton dated as of May 7, 1999

Employment Agreement between Aquarion Company and Larry L. Bingaman dated as of June 11, 1990

Continuity Agreement between Aquarion Company and Larry L. Bingaman dated as of May 7, 1999

Amended and Restated Employment Agreement among Kelda Group plc, Aquarion Company and Charles V. Firlotte dated as of September 1, 2003

Employment Agreement between Aquarion Company and Donald J. Morrissey dated as of August 1, 2005

Employment Agreement between Aquarion Company and Janet Hansen as of January 1, 2001 and the First Amendment to Employment Agreement between Aquarion Company and Janet M. Hansen dated September 1, 2003 (amendment contains provision for spousal medical coverage following employee's death)

Amended and Restated Employment Agreement by and among Kelda Group plc, Aquarion Company and Richard K. Schmidt dated August 8, 2002 (contains provision for additional SERP benefit and spousal medical coverage following employee's death)

The following qualified retirement plans may not be amended to cut-back an accrued benefit or to eliminate an optional form of benefit in violation of Section 411(d)(6) of the Code, nor may they be terminated or otherwise discontinued except in accordance with the requirements of ERISA, the Code and the applicable plan:

Retirement Plan for Employees of Aquarion Company, as amended and restated effective January 1, 1997 and as further amended by the First, Second, Third, Fourth, Fifth and Sixth Amendments thereto

Pension Plan for Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire, effective as of April 25, 2002, as amended by the First, Second and Third Amendments thereto

The Aquarion Company Employee Savings and Investment Plan, as amended and restated effective December 1, 1998, and as further amended by the First, Second, Third, Fourth, Fifth, Sixth, Seventh and Eighth Amendments thereto

Savings Plan for Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire, effective as of April 25, 2002, as amended by the First, Second, Third and Fourth Amendments thereto

The prohibition against private inurement under Treasury Regulations Section 1.501(c)(9)-4(a) and the corresponding terms of the following voluntary employees' beneficiary associations (VEBAs) affects how assets held in the VEBAs may be distributed upon termination or discontinuation of the VEBAs:

Medical and Dental Plan for Employees of Aquarion Company and its Designated Subsidiaries and related Trust Agreement (plan number 501)

Medical and Dental Plan for Union Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 502)

Retiree Life Plan for Certain Union and NonUnion Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 503)

The following nonqualified retirement plans may not be amended or terminated to cause a reduction or cessation of benefits accrued by any participant prior to the adoption of such amendment or termination:

Director's Retirement Plan of Aquarion Company

Director's Deferred Compensation Plan of Aquarion Company

Supplemental Savings and Retirement Plan of Aquarion Company

No amendment or action that adversely affects any director participating in the Director's Deferred Compensation Plan of Aquarion Company is valid without the prior written consent of such director.

The Company is a party to the following collective bargaining agreements:

1. Aquarion Water Company of Connecticut and Local No. 384, Utility Workers Union of America, A.F.L.-C.I.O., dated April 1, 2004 to March 31, 2007.

2. Aquarion Water Company of New Hampshire and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. on behalf of Amalgamated Local No. 8938, dated December 1, 2003 to November 30, 2006.
3. Aquarion Water Company of Massachusetts and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. Local 13492 (Serving the Hingham, Cohasset, Hull and Norwell Locations) dated April 5, 2004 to April 4, 2008.
4. Aquarion Water Company of Massachusetts and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. on behalf of its Local No. 2938 (serving the Millbury and Oxford locations) dated August 1, 2003 to July 31, 2006.

The Company has also entered into the following side agreements with the Utility Workers' Union of America, Local 384:

1. February 8, 2004 Side Agreement, 2004 Holiday Schedule – Christmas.
2. January 17, 2004 Letter of Agreement regarding a 14-day notice to union for contracting out work
3. November 3, 2003 Letter of Agreement regarding vacation (grandfathering four individuals with six weeks' vacation and one individual with five weeks' vacation).
4. January 17, 2004 Letter of Agreement regarding employees assigned to work out of the Company's Greenwich and Port Chester facilities who will not be involuntarily, permanently assigned to other locations for the duration of the CBA (March 31, 2007).

United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. Local 13492 filed on December 29, 2005 with the National Labor Relations Board an unfair labor practice alleging that the employer created a new bargaining unit position with unilaterally established terms. Local 13492 withdrew the charge on January 17, 2006 and the matter is being addressed in the grievance procedure.

The Company has also entered into the following agreements:

1. Employee Benefits agreement dated March 18, 2004 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 13492, and Aquarion Water Company of MA, adhering to the benefits contained in the collective bargaining unit agreement until July 31, 2005.
2. Employee Vacation Accrual agreement dated March 18, 2004 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 13492, and Aquarion Water Company of MA, providing payment for vacation accrual for January, February and March 2004, or for accrued vacation to be taken during the term of the collective bargaining unit agreement.

3. Millbury Vacation memorandum of agreement dated December 11, 2003 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 2936, and Aquarion Water Company of MA, providing grandfathering of certain union employees' vacation accrual.

4. Hampton Vacation agreement dated November 14, 2003, by and between the United Steelworkers of America, AFL-CIO-CLC, Local 8938, and Aquarion Water Company of NH, providing grandfathering of certain union employees' vacation accrual.

3.15(n)

As of February 15, 2006, Company, the Utility Subsidiaries and the Other Subsidiaries do not have employees except as set forth (and identified by employing entity) on Schedule 5.6(a).

3.15(o)

Company and the Subsidiaries maintain the following retiree life and retiree health coverage for employees and beneficiaries after the employee's termination of employment, the cost of which is not fully paid by the former employee or his or her dependent:

Retiree health coverage under the Medical and Dental Plan for Employees of Aquarion Company and its Designated Subsidiaries and related Trust Agreement (plan number 501)

Retiree health coverage under the Medical and Dental Plan for Union Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 502)

Retiree life coverage under the Retiree Life Plan for Certain Union and NonUnion Employees of Aquarion Water Company of Connecticut, Aquarion Water Company of Massachusetts, and Aquarion Water Company of New Hampshire and related Trust Agreement (plan number 503)

Death benefits provided under the Aquarion Company Company-Owned Life Insurance and Salary Continuation Death Benefit for Exempt Employees as of June 1, 1989 (McGregor letter to Exempt Employees dated July 27, 1989)

Subsidized COBRA coverage and continued health and life coverage for the following executives as described in the following continuity and employment agreements:

Employment Agreement between Aquarion Company and Daniel Neaton dated as of April 23, 1999

Continuity Agreement between Aquarion Company and Daniel Neaton dated as of May 7, 1999

Employment Agreement between Aquarion Company and Larry L. Bingaman dated as of June 11, 1990

Continuity Agreement between Aquarion Company and Larry L. Bingaman dated as of May 7, 1999

Amended and Restated Employment Agreement among Kelda Group plc, Aquarion Company and Charles V. Firlotte dated as of September 1, 2003

Employment Agreement between Aquarion Company and Donald J. Morrissey dated as of August 1, 2005

Employment Agreement between Aquarion Company and Janet Hansen as of January 1, 2001 and the First Amendment to Employment Agreement between Aquarion Company and Janet M. Hansen dated September 1, 2003 (amendment contains provision for spousal medical coverage following employee's death)

Amended and Restated Employment Agreement by and among Kelda Group plc, Aquarion Company and Richard K. Schmidt dated August 8, 2002 (contains provision for spousal medical coverage following employee's death)

It is the practice of the Company to provide a deceased retiree's spouse with medical coverage at the cost of a retiree's premium for one year following the death of the retiree.

Section 3.16
Absence of Changes or Events

Ongoing examination by the Internal Revenue Service (“IRS”) of the Company’s 2001, 2002, 2003 and federal tax returns, as further described in Section 3.14 of this Seller Disclosure Schedule.

The New Hampshire Department of Revenue Administration is challenging Aquarion Water Company of New Hampshire’s state tax filing for the years 2002 and 2003. Aquarion Water Company of New Hampshire files a stand- alone return that bases the taxable income solely on the operating results of that company. The Department is arguing that the tax returns should be filed on a unitary (consolidated) basis.

Section 3.17
Compliance with Applicable Law

None.

Section 3.18
Employee and Labor Matters

3.18(a)

The Company is a party to the following collective bargaining agreements:

1. Aquarion Water Company of Connecticut and Local No. 384, Utility Workers Union of America, A.F.L.-C.I.O., dated April 1, 2004 to March 31, 2007.
2. Aquarion Water Company of New Hampshire and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. on behalf of Amalgamated Local No. 8938, dated December 1, 2003 to November 30, 2006.
3. Aquarion Water Company of Massachusetts and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. Local 13492 (Serving the Hingham, Cohasset, Hull and Norwell Locations) dated April 5, 2004 to April 4, 2008.
4. Aquarion Water Company of Massachusetts and United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. on behalf of its Local No. 2938 (serving the Millbury and Oxford locations) dated August 1, 2003 to July 31, 2006.

The Company has also entered into the following side agreements with the Utility Workers' Union of America, Local 384:

1. February 8, 2004 Side Agreement, 2004 Holiday Schedule – Christmas.
2. January 17, 2004 Letter of Agreement regarding a 14-day notice to union for contracting out work
3. November 3, 2003 Letter of Agreement regarding vacation (grandfathering four individuals with six weeks' vacation and one individual with five weeks' vacation).
4. January 17, 2004 Letter of Agreement regarding employees assigned to work out of the Company's Greenwich and Port Chester facilities who will not be involuntarily, permanently assigned to other locations for the duration of the CBA (March 31, 2007).

The Company has also entered into the Benefits Memorandum of Agreement effective August 1, 2005 through July 31, 2010 between Aquarion Water Company and the Utility Workers of America, A.F.L.-C.I.O., Local No. 384 and United Steelworkers of America, A.F.L.-C.I.O., Local Nos. 8938, 13492, and 2936.

United Steelworkers of America, A.F.L.-C.I.O.-C.L.C. Local 13492 filed on December 29, 2005 with the National Labor Relations Board an unfair labor practice alleging that the employer

created a new bargaining unit position with unilaterally established terms. Local 13492 withdrew the charge on January 17, 2006 and the matter is being addressed in the grievance procedure.

The Company has also entered into the following agreements:

1. Employee Benefits agreement dated March 18, 2004 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 13492, and Aquarion Water Company of MA, adhering to the benefits contained in the collective bargaining unit agreement until July 31, 2005.
2. Employee Vacation Accrual agreement dated March 18, 2004 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 13492, and Aquarion Water Company of MA, providing payment for vacation accrual for January, February and March 2004, or for accrued vacation to be taken during the term of the collective bargaining unit agreement.
3. Millbury Vacation memorandum of agreement dated December 11, 2003 by and between the United Steelworkers of America, AFL-CIO-CLC, Local 2936, and Aquarion Water Company of MA, providing grandfathering of certain union employees' vacation accrual.
4. Hampton Vacation agreement dated November 14, 2003, by and between the United Steelworkers of America, AFL-CIO-CLC, Local 8938, and Aquarion Water Company of NH, providing grandfathering of certain union employees' vacation accrual.

Section 3.19
Public Utility Regulation

3.19(a)

1. Aquarion Water Company of Connecticut is regulated as a public utility in Connecticut.
2. Aquarion Water Company of Massachusetts is regulated as a public utility in Massachusetts.
3. Aquarion Water Company of New Hampshire is regulated as a public utility in New Hampshire.
4. Aquarion Water Company of New York is regulated as a public utility in New York.
5. Aquarion Water Company of Sea Cliff is regulated as a public utility in New York.

3.19(b)(i) & (ii)***Utility Rate Base (in \$000)***

	<u>12/31/2005</u>	Allowed per <u>Last Rate Case</u>
Connecticut	\$406,186	\$ 380,732
New York	24,941	19,106
Massachusetts	28,877	19,810
New Hampshire	16,075	14,194
Sea Cliff	6,126	5,380
Utility Total	<u>\$482,205</u>	<u>\$439,222</u>

Section 3.20

Affiliate Transactions

Intercompany Notes Payable & Interest

All of the Subsidiaries have, to varying degrees, short term indebtedness to the Company. Each Subsidiary's cash position is evaluated on a monthly basis. To the extent that funding is required on the respective balance sheets, short term notes are adjusted accordingly. Along the same lines of reasoning, each Subsidiary, to the extent that it has any level of intercompany borrowing, pays interest expense at a rate equivalent to Aquarion Company's average daily short term investing rate for the month. These borrowings are from other Subsidiaries to the extent they have available funds. Thus, from time to time, each Subsidiary may be borrowing or lending.

Common Dividends

Each Subsidiary pays a quarterly common dividend to Aquarion Water Company. Aquarion Water Company pays a dividend to Aquarion Company who in turn pays the dividend to Kelda Group Inc.

Service Agreements Charges

Labor & Benefits - Based on existing service agreements, Subsidiaries are permitted to charge one another directly (through timesheet entry) for work that is performed for the benefit of the respective Subsidiary. An additional monthly journal entry will allocate the benefits for the referenced time charged.

Common charges - In addition to time charged, additional entries record the sharing of common costs such as Customer Service & Collections, Information Technology, Transportation and carrying costs associated with certain common facilities.

A copy of the form of Service Agreement has been provided to the Purchaser.

Corporate Expenses

Corporate charges from Kelda Group plc and Aquarion Company are allocated to the Subsidiaries. These charges represent costs associated with a publicly traded company for maintaining a Board of Directors, shareholder expenses, auditing functions and corporate insurance. A portion of executive salaries and their related benefits are also allocated to Subsidiaries.

See table below.

**Aquarion Company
Intercompany Debt**

	January 1, <u>2006</u>
	(In Thousands)
<u>AWC of CT</u>	
Notes payable (receivable) - affiliates	\$ 1,000
<u>AWC of NY</u>	
Notes payable - affiliates	10,000
<u>AWC of MA</u>	
Notes payable - affiliates	9,700
<u>Mass Resources</u>	
Notes payable - affiliates	400
<u>AWC of NH</u>	
Notes payable - affiliates	900
<u>SEA CLIFF</u>	
Notes payable - affiliates	2,800
<u>AWC</u>	
Notes payable (receivable) - affiliates	(100)
<u>ASC</u>	
Notes payable - affiliates	14,500
<u>Safety Valve</u>	
Notes receivable - affiliates	(2,500)
<u>MSSC</u>	
Notes receivable - affiliates	(1,700)
<u>Aquarion</u>	
Notes receivable - affiliates	<u>(35,000)</u>
Total Intercompany Debt amongst Aquarion subsidiaries	<u>\$ -</u>

Section 5.1
Covenants Relating to Conduct of Business

1. Prior to the Closing, Company shall be permitted, in each case, to the extent otherwise permitted by Section 5.1 of the Agreement and in a manner consistent with the Forecast, to (a) make a payment to Seller in an amount equal to the pro rata portion of the monthly management fee that would be payable for the month in which the Closing occurs (together with any monthly management fee for the immediately preceding month if such amount has not previously been paid), (b) to pay dividends in an amount equal to the pro rata portion of the quarterly dividend payment that would be payable for the quarter in which the Closing occurs (together with any quarterly dividends for the immediately preceding quarter if such amount has not been previously paid), and (c) make a payment to Seller in an amount equal to any accrual for current Taxes for the quarter in which the Closing occurs (together with any accrual for current Taxes for the immediately preceding quarter if such amount has not previously been paid).

2. Company shall be permitted to continue its current cash management system, and permit the Retained Entities to participate therein, for a period of not exceeding 90 days following the date of this Agreement; provided, however, that at such time as the Retained Entities cease to participate in such cash management system (the **End Date**), if, during the period from the date of this Agreement through the End Date, (a) the net cash contributed by the Retained Entities is negative, Seller shall make a payment to Company in an amount equal to such deficit, or (b) the net cash contributed by the Retained Entities is positive, Company shall make a payment to Seller or the Retained Entities in an amount equal to such excess.

5.1(a)(xvii)

Seller, Company and Subsidiaries will enter into a separation agreement with Daniel A. Neaton on or about March 31, 2006, which shall provide Mr. Neaton with those cash and benefits specified in the Employment Agreement between Aquarion Company and Daniel Neaton dated as of April 23, 1999 and Continuity Agreement between Aquarion Company and Daniel Neaton dated as of May 7, 1999, in the event of a good reason termination, plus cash equal to his accrued vacation pay, all payments and benefits of which shall be paid exclusively by Seller; provided, however, that any continued participation in, and obligations arising under, certain Company and Subsidiary welfare benefit plans and the pension plans listed in Section 3.15 of this Disclosure Schedule, other than severance plans, policies, agreements or arrangements, shall remain the responsibility of the Company and Subsidiaries, but solely to the extent to which Mr. Neaton would be entitled to such benefit from and following his termination of employment. In addition, after such separation date, which shall be prior to the Closing Date, Mr. Neaton's employment with the Company and any and all Subsidiaries shall terminate.

See also attached Forecast

Aquarion Company - (Aquarion stand-alone)																	
Projected Movements in Net Debt																	
January 2006 through March 2007																	
	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Total 15 Months
Net Debt - Beginning		(203,617,000)	(206,473,124)	(211,987,708)	(219,033,948)	(223,551,413)	(223,563,731)	(236,219,603)	(234,851,879)	(238,159,422)	(245,874,724)	(238,118,670)	(235,017,003)	(241,944,444)	(238,233,704)	(240,419,431)	(203,617,000)
Operating		8,592,000	5,420,667	6,624,667	4,009,667	7,191,667	3,996,667	9,017,667	8,913,667	8,436,667	13,993,667	7,672,667	6,314,667	8,926,667	5,635,667	6,924,667	111,671,333
Property Taxes		(400,000)	(4,425,000)	-	(200,000)	(220,000)	(300,000)	(445,000)	(4,125,000)	(300,000)	(100,000)	(465,000)	-	(400,000)	(4,425,000)	-	(15,805,000)
Income Taxes		-	-	(1,386,400)	-	-	(3,079,600)	-	-	(3,618,700)	-	-	(3,638,250)	-	-	(4,838,250)	(16,561,200)
Interest - LT, ST, Kel-\$10m		(4,415,510)	(904,568)	(1,150,896)	(1,237,060)	(210,008)	(1,150,623)	(783,460)	(2,174,477)	(1,205,460)	(1,323,362)	(147,123)	(1,075,412)	(1,880,884)	(1,003,747)	(1,108,600)	(19,771,188)
Kelda Management Fee		-	-	-	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(123,118)	(1,477,420)
Aquarion Dividend		-	-	(5,242,391)	-	-	(5,209,400)	-	-	(5,268,050)	-	-	(5,297,375)	-	-	(5,297,375)	(26,314,591)
Capex		(6,632,614)	(5,605,682)	(5,891,220)	(6,966,954)	(6,650,859)	(6,789,797)	(6,298,364)	(5,798,615)	(5,636,640)	(4,691,132)	(3,835,759)	(3,107,953)	(2,811,925)	(2,269,528)	(2,199,826)	(75,186,867)
Net Debt - Ending		(206,473,124)	(211,987,708)	(219,033,948)	(223,551,413)	(223,563,731)	(236,219,603)	(234,851,879)	(238,159,422)	(245,874,724)	(238,118,670)	(235,017,003)	(241,944,444)	(238,233,704)	(240,419,431)	(247,061,933)	(247,061,933)
Less: Kelda Intercompany Debt		10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Net Debt Excl. Kelda Debt		(196,473,124)	(201,987,708)	(209,033,948)	(213,551,413)	(213,563,731)	(226,219,603)	(224,851,879)	(228,159,422)	(235,874,724)	(228,118,670)	(225,017,003)	(231,944,444)	(228,233,704)	(230,419,431)	(237,061,933)	(237,061,933)
Composition of Net Debt:																	
Long Term Debt	(239,618,000)	(239,618,000)	(239,618,000)	(239,618,000)	(239,618,000)	(239,618,000)	(239,618,000)	(243,518,000)	(243,518,000)	(243,518,000)	(263,518,000)	(263,518,000)	(263,518,000)	(263,518,000)	(263,518,000)	(263,518,000)	(263,518,000)
Short Term Debt - BoA	(14,000,000)	(6,000,000)	(7,109,760)	(11,851,404)	(15,097,202)	(13,837,854)	(25,222,059)	(18,858,668)	(20,894,545)	(27,338,180)	789,541	5,162,874	(492,900)	4,489,506	3,575,446	(1,795,389)	
Subtotal Third-Party Debt	(253,618,000)	(245,618,000)	(246,727,760)	(251,469,404)	(254,715,202)	(253,455,854)	(264,840,059)	(262,376,668)	(264,412,545)	(270,856,180)	(262,728,459)	(258,355,126)	(264,010,900)	(259,028,494)	(259,942,554)	(265,313,389)	
Short Term Debt - Kelda	0	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	
Total Debt	(253,618,000)	(255,618,000)	(256,727,760)	(261,469,404)	(264,715,202)	(263,455,854)	(274,840,059)	(272,376,668)	(274,412,545)	(280,856,180)	(272,728,459)	(268,355,126)	(274,010,900)	(269,028,494)	(269,942,554)	(275,313,389)	
Less: Cash and Investments	37,092,000	36,235,876	31,831,052	29,526,456	28,254,789	26,983,123	25,711,456	24,439,789	23,168,123	21,896,456	20,624,789	19,353,123	18,081,456	16,809,789	15,538,123	14,266,456	
Less: Debt Issuance Costs	12,909,000	12,909,000	12,909,000	12,909,000	12,909,000	12,909,000	12,909,000	13,085,000	13,085,000	13,085,000	13,985,000	13,985,000	13,985,000	13,985,000	13,985,000	13,985,000	
Subtotal	50,001,000	49,144,876	44,740,052	42,435,456	41,163,789	39,892,123	38,620,456	37,524,789	36,253,123	34,981,456	34,609,789	33,338,123	32,066,456	30,794,789	29,523,123	28,251,456	
Net Debt	(203,617,000)	(206,473,124)	(211,987,708)	(219,033,948)	(223,551,413)	(223,563,731)	(236,219,603)	(234,851,879)	(238,159,422)	(245,874,724)	(238,118,670)	(235,017,003)	(241,944,444)	(238,233,705)	(240,419,431)	(247,061,933)	

Note: Amounts shown by month are representative and could fluctuate. All monthly amounts should be viewed in aggregate over the period and amounts and allocations for any one month could be utilized in another month due to timing fluctuations.

Section 5.6(a)
Affected Employees

Subsidiary	Last Name	First Name	Date of Hire
Sea Cliff Water	Brala	John	3/2/1992
Sea Cliff Water	Liodice	Peter	01/23/2006
Sea Cliff Water	Grella	Anthony	4/12/1972
Sea Cliff Water	Hall	Arthur	4/14/1986
Sea Cliff Water	Swierupski	Alice	8/4/2003
Sea Cliff Water	Thorgramson	Mary Ellen	6/26/2000
AWC-CT	Angelini	Michael	2/28/2000
AWC-CT	Appicelli	Michael	9/19/1994
AWC-CT	Arcuri	Alice	8/9/2004
AWC-CT	Baulsir	James	10/24/2005
AWC-CT	Berg	Georgeanne	9/12/2005
AWC-CT	Bernard	Erik	3/2/1981
AWC-CT	Bradshaw	Arthur	11/5/1984
AWC-CT	Brown	Jameira	5/5/2003
AWC-CT	Camerino-Schultz	Elizabeth	3/6/1984
AWC-CT	Civale	Matthew	11/24/2003
AWC-CT	Cooper	Carolyn	2/11/2002
AWC-CT	Cornelio	David	1/2/1996
AWC-CT	Cummings	Donald	8/25/1980
AWC-CT	Discepolo	Linda	8/6/1979
AWC-CT	Dixon	Troy	2/18/2003
AWC-CT	Dunn	Howard	6/5/1995
AWC-CT	Dyer	Jean A Zanella	12/11/1989
AWC-CT	Fanell	Maria	2/23/1998
AWC-CT	Farrell	Jeffrey	3/6/1978
AWC-CT	Farrell	John	1/17/1995
AWC-CT	Fensore	Ralph	9/8/1986
AWC-CT	Ferrand	Susan	8/26/2002
AWC-CT	Firlotte	Charles	10/5/1987
AWC-CT	Fois	Mark	8/9/1999
AWC-CT	Freeman	Regina	5/2/1984
AWC-CT	Ghassemzadeh	Khalil	10/30/1979
AWC-CT	Glowa	Steven	1/15/1979
AWC-CT	Guido	Raymond	10/9/1995
AWC-CT	Haines	Gary	10/10/1977
AWC-CT	Halloran	Stephen	7/1/2004
AWC-CT	Hanover	Bradford	5/18/1981
AWC-CT	Herlihy	John	5/29/1973
AWC-CT	Hildred	Alan	10/26/1987
AWC-CT	Holfelder	James	2/28/2000
AWC-CT	Jones	Seth	9/20/1999
AWC-CT	Jones	Ellen	8/2/2004
AWC-CT	Kaminski	Gary	8/28/1995

Subsidiary	Last Name	First Name	Date of Hire
AWC-CT	Karasik	Ian	4/25/2005
AWC-CT	Kessing	Paul	5/18/1989
AWC-CT	Kuhn	Valerie	4/26/1993
AWC-CT	Lavin	Amy	4/18/2005
AWC-CT	Liscinsky	Robert	6/17/1974
AWC-CT	Logan	George	5/26/1992
AWC-CT	Marsilio	John	1/1/2004
AWC-CT	Martin	Jennifer	11/28/05
AWC-CT	Mastrianni	Karen	9/26/2005
AWC-CT	McKiernan	Sean	12/1/2003
AWC-CT	Medd	David	12/16/1992
AWC-CT	Mercer	Rhonda	6/2/2003
AWC-CT	Morrissey	Donald	1/30/1995
AWC-CT	Mu	Lan	11/1/2004
AWC-CT	Munson	Brian	4/4/1983
AWC-CT	Neaton	Daniel	2/8/1988
AWC-CT	Olenski	John	9/28/1987
AWC-CT	Ott	Daniel	3/23/1998
AWC-CT	Page	Robert	8/23/1993
AWC-CT	Pannikodu	Kuriakose	9/22/2003
AWC-CT	Parlatore	Donna	8/15/1988
AWC-CT	Picone	Michael	1/7/1980
AWC-CT	Polifemo	Salvatore	10/28/2002
AWC-CT	Roach	Brian	11/18/1985
AWC-CT	Roberts	Nancy	6/29/1992
AWC-CT	Russell	Kerri	5/4/1998
AWC-CT	Sandor	David	12/9/1977
AWC-CT	Scarinzi	Anthony	5/26/1998
AWC-CT	Schultz	John	6/13/1990
AWC-CT	Seara	Maria	1/2/1991
AWC-CT	Simpanen	Judy	1/25/1988
AWC-CT	Smiarowski	Donald	10/7/1997
AWC-CT	Spieler	Marcy	8/10/1998
AWC-CT	Stamos	Stephen	1/23/1978
AWC-CT	Starbuck	Barbara	9/19/2005
AWC-CT	Steer	Marcia	1/2/1996
AWC-CT	Teixeira	Lucia	8/13/1990
AWC-CT	Thompson	Brian	10/29/1990
AWC-CT	Tomasko	Bruce	01/09/2006
AWC-CT	Torres	Miguel	9/17/1979
AWC-CT	Vaughan	Adrienne	6/16/1994
AWC-CT	Walsh	John	1/9/1995
AWC-CT	Wattnem	Erik	3/20/1995
AWC-CT	Dye	Johnny	6/19/1972
AWC-CT	Lapierre	Roland	11/1/1984
AWC-CT	Adams	Kent	2/1/1999
AWC-CT	Almonacid	Raul	4/25/2005
AWC-CT	Anderson	Mark	3/14/1983
AWC-CT	Anderson	Timothy	3/14/1983

Subsidiary	Last Name	First Name	Date of Hire
AWC-CT	Anderson	John	1/3/1977
AWC-CT	Battagliotti	Carol	7/8/2002
AWC-CT	Bendolph	Tracy	8/12/2002
AWC-CT	Borges	Tomeka	3/18/2002
AWC-CT	Bragg	Philip	7/5/2000
AWC-CT	Burke	Jonathan	6/13/1995
AWC-CT	Busa	Nemi	11/28/2005
AWC-CT	Byron	Roy	9/16/1971
AWC-CT	Calandro	Angela	4/2/2002
AWC-CT	Carswell	Jeffrey	1/26/1993
AWC-CT	Caverly	Donise	3/13/1995
AWC-CT	Chapman	Richard	7/18/1988
AWC-CT	Charnetski	Michael	4/23/1984
AWC-CT	Claps	Michael	1/18/1990
AWC-CT	Cleri	Richard	11/23/1992
AWC-CT	Cornut	Susan	5/13/2002
AWC-CT	Cotto	Walberto	2/19/1985
AWC-CT	Creelan	Stacy	2/24/1992
AWC-CT	Cretella	James G. Jr.	9/8/1986
AWC-CT	Cruz	Damian	11/14/1988
AWC-CT	Cuevas	Manuel	11/2/1998
AWC-CT	Curran	Morgan	5/16/1994
AWC-CT	Dastoli	Jr. Anthony	7/1/1985
AWC-CT	Deaso	Nancy	12/31/1990
AWC-CT	Decrescenzo	Philip	2/19/1991
AWC-CT	DeMezzo	Sarah	5/28/2002
AWC-CT	Dennis	Deborah	3/4/1991
AWC-CT	Diaz	Marilyn	8/5/2002
AWC-CT	Doyle	Beverly	2/19/2002
AWC-CT	Dragone	Joseph	6/26/1995
AWC-CT	Dunbar	Francisco	10/1/2001
AWC-CT	Dwy	Walter	11/24/1986
AWC-CT	Quinonez	Catarina	11/16/1998
AWC-CT	Fabso	Charles	3/10/1980
AWC-CT	Faustin	Joseph	4/7/1986
AWC-CT	Fisher	Stephen	5/17/1982
AWC-CT	Flanagan	Felice	11/20/1995
AWC-CT	Forte	Robert	11/11/1970
AWC-CT	Fredericks	William	9/8/1987
AWC-CT	Fritz	Gary	3/11/2002
AWC-CT	Furino	Rose	3/14/2005
AWC-CT	Gardner	Gregory	9/9/1974
AWC-CT	Gardner	Denise	12/3/1979
AWC-CT	Gardner	David	12/14/1981
AWC-CT	Glowacki	Cheryl	6/2/2003
AWC-CT	Gonzalez	Jorge	10/18/1976
AWC-CT	Gorman	Terrence	2/22/1988
AWC-CT	Greene	Richard	9/24/1979
AWC-CT	Hanks	Edwin	5/19/1977

Subsidiary	Last Name	First Name	Date of Hire
AWC-CT	Hermanson	John	4/28/1986
AWC-CT	Hernandez	Leticia	9/16/1996
AWC-CT	Humes	Daniel	12/05/2005
AWC-CT	Keorajavongsay	Soulin	5/31/2005
AWC-CT	Khamhoung	Bounnhaseng	9/12/2005
AWC-CT	Kongsynonh	Onanongnart	5/3/2004
AWC-CT	Kushwara	Christopher	6/7/1993
AWC-CT	Labella	Roger	10/15/1990
AWC-CT	Lakic	Jean	10/11/1999
AWC-CT	Lathlean	David	5/28/2002
AWC-CT	Legan	Joseph	8/1/1981
AWC-CT	Leone	Gary	4/10/1989
AWC-CT	Lepore	Carmine	12/7/1970
AWC-CT	Liberante	Michael	3/26/1990
AWC-CT	Loomis	Robert	3/29/1971
AWC-CT	Malanca	Dante	9/15/1989
AWC-CT	Marcinowski	Andrew	2/20/2001
AWC-CT	Martinez	Federico	12/20/1999
AWC-CT	Matera	Michael	1/14/2002
AWC-CT	McCabe	Kollie	9/21/1992
AWC-CT	McNamara	John	10/23/1989
AWC-CT	Merriman	Paul	1/23/1989
AWC-CT	Meston	Michael	10/02/05
AWC-CT	Metz	Eric	9/6/1994
AWC-CT	Montalvo	Ivette	4/19/1999
AWC-CT	Mosessian	George	10/13/1986
AWC-CT	Moyer	Michael	2/22/1993
AWC-CT	Murphy	Linda	4/27/1998
AWC-CT	Myers	Mae	4/5/1976
AWC-CT	Nappi	Raymond	10/1/1990
AWC-CT	Neumann	Marc	8/19/2002
AWC-CT	Nimithkoune	Tia	6/21/2001
AWC-CT	Norko	John	8/19/1998
AWC-CT	Ortiz	Julia	5/31/2005
AWC-CT	Pantoja	Maria	8/9/1999
AWC-CT	Passeck	Peter	11/15/1993
AWC-CT	Perez	Herminia	4/25/1988
AWC-CT	Perez	Yolanda	2/14/2000
AWC-CT	Peterson	Michael	7/28/1986
AWC-CT	Petrucelli	Joseph	4/7/1980
AWC-CT	Phommachanh	Kham	5/30/1989
AWC-CT	Plavnicky	John	4/4/1994
AWC-CT	Poremba	John	3/18/2002
AWC-CT	Poudin	Don	7/5/1995
AWC-CT	Ranger	Moriah	9/8/1999
AWC-CT	Redfield	Christopher	9/23/1985
AWC-CT	Rega	Brian	4/1/2002
AWC-CT	Reppucci	Edward	7/10/1995
AWC-CT	Rivas	Aldo	2/9/2004

Subsidiary	Last Name	First Name	Date of Hire
AWC-CT	Rivera	Angel	9/17/1984
AWC-CT	Rivera	Salvador	9/30/1994
AWC-CT	Roberto	David	3/14/1988
AWC-CT	Robledo	Alexander	8/4/1987
AWC-CT	Rodriguez	Lawrence	9/7/1983
AWC-CT	Rohe	Albert	3/13/1978
AWC-CT	Romanillo	Mary	2/5/1990
AWC-CT	Rosso	Mark	1/2/1991
AWC-CT	Satifka	Miriam	2/4/1991
AWC-CT	Scales II	George M.	2/12/1996
AWC-CT	Siegler	Lynn	8/27/1984
AWC-CT	Sorensen	Kevin	12/18/1978
AWC-CT	Stoll	Barbara	5/14/1984
AWC-CT	Tarantino	Thomas	9/3/2001
AWC-CT	Tartaglia	Michael	5/6/1985
AWC-CT	Taylor	Andrew	6/28/1999
AWC-CT	Taylor	Pamela	3/1/1993
AWC-CT	Tiedmann	Werner	10/9/1989
AWC-CT	Toth	Carol	4/9/2001
AWC-CT	Tsoupas	Barbara	7/11/1977
AWC-CT	Ulbrick	Frederick	6/14/1993
AWC-CT	Valentin	Brenda	9/2/2003
AWC-CT	Vernon-Wint	Sophia	4/26/2004
AWC-CT	Vizcarrondo	Carlos	10/16/1995
AWC-CT	Wargo	Brody	2/4/2002
AWC-CT	Welsh	Joseph	9/8/1997
AWC-CT	Williams	Nicole	8/16/2004
AWC-CT	Young	Brian	2/1/1999
AWC-CT	Zando	Deborah	1/28/1985
AWC-CT	Bonadies	Gerald	12/3/1968
AWC-CT	Bouchard	Michael	4/16/2004
AWC-CT	Cedergren	Robert	8/30/2004
AWC-CT	Fernandez	Marie	1/2/1996
AWC-CT	Gabor	John	3/4/1968
AWC-CT	Kushwara	Rebecca	1/20/2005
AWC-CT	Lewis	Raymond	9/28/1971
AWC-CT	Loecher	Scott	4/16/2001
AWC-CT	Marshall	Earl	6/1/2003
AWC-CT	Parziale	Jessica	7/19/2005
AWC-CT	Philipose	Renny	9/22/2005
AWC-CT	Rezazadeh	Shokoofeh	4/1/2005
AWC-CT	Tiedmann	Joseph	7/9/2004
AWC-CT	Townsend	William	8/18/1980
AWC-CT	Ziobo	Tom	11/23/1998
AWC-CT	Barba	Cristian	11/6/2003
AWC-CT	Burns	John	3/5/1981
AWC-CT	Capalbo	Peter	6/14/1982
AWC-CT	Confident	Kevin	4/30/2001
AWC-CT	Crowle	James	7/26/1978

Subsidiary	Last Name	First Name	Date of Hire
AWC-CT	D'Amario	Holly	10/3/1988
AWC-CT	Dragonetti	Robert	1/11/1988
AWC-CT	Franceschini	Anthony	11/21/1988
AWC-CT	Goss	William	3/12/1990
AWC-CT	Jamroz	Jack	10/29/1979
AWC-CT	Lindine	James	4/6/1998
AWC-CT	Linnin	James	12/18/1972
AWC-CT	Lo Parco	Daniel	11/18/1974
AWC-CT	Lombardi, Jr	Luciano	6/9/1997
AWC-CT	Lott	Lester	11/23/1998
AWC-CT	Lundgren	Jennifer	4/7/1997
AWC-CT	McLoughlin	Thomas	5/30/1989
AWC-CT	Melillo	Charles	12/18/1980
AWC-CT	Morelli	John	12/12/1988
AWC-CT	Mucha	Michael	1/6/1978
AWC-CT	Mudahy	Andrew	1/3/1989
AWC-CT	Mulvany	David	3/5/1973
AWC-CT	Murphy	Patricia	5/18/1987
AWC-CT	Olmstead	Wayne	11/13/1989
AWC-CT	Pastor	Alex	8/13/1984
AWC-CT	Peluso	Daniel	4/23/2001
AWC-CT	Ricciardi, Jr.	Gerald	9/11/1995
AWC-CT	Rogers	Patrick	6/5/1978
AWC-CT	Silva	Jeffrey	3/29/1985
AWC-CT	Summers	Richard	4/11/1985
AWC-CT	Texiere	Robert	2/7/1977
AWC-CT	Vigue	Edward	11/9/1987
AWC-CT	Yates	Joseph	5/31/1978
AWC-CT	Zimmer	Nyree	2/06/2006
AWC-CT	Barto	Karen	2/13/2006
AWC-CT	Anamasi	Lynn	2/13/2006
AWC-MA	Cardillo	George	2/13/1989
AWC-MA	Carter	George	4/17/1973
AWC-MA	Dearth	Darren	9/7/1999
AWC-MA	Dunham	Stephen	5/12/1980
AWC-MA	Frazier	David	3/15/1976
AWC-MA	Meehan	Bruce	8/31/1998
AWC-MA	Niven	James	6/28/1982
AWC-MA	Beck	David	8/30/1999
AWC-MA	Hatch	Robert	12/11/1979
AWC-MA	King	David	5/26/1987
AWC-MA	Siriani	Joseph	5/16/1991
AWC-MA	St. Laurent	Lawrence	7/18/1988
AWC-MA	Taylor	Edward	4/22/2003
AWC-MA	Trinchera	Frank	9/5/1978
AWC-MA	Desorcy	Michelle	3/3/1999
AWC-MA	Drapeau	Paul	4/21/2003
AWC-MA	Harackiewicz	Teresa	6/6/2005
AWC-MA	Kenary	John	9/5/1978

Subsidiary	Last Name	First Name	Date of Hire
AWC-MA	King	Francis	3/20/1985
AWC-MA	Lawson	Paul	9/15/1997
AWC-MA	Morse	Kenneth	6/15/1998
AWC-MA	Bingaman	Larry	6/11/1990
AWC-MA	Bradford	Shawn	2/28/2005
AWC-MA	Hiltz	Ann	1/30/1984
AWC-MA	Roland	Robert	2/16/1999
AWC-NH	Barker	Warren	8/30/1971
AWC-NH	Bernier	Michael	11/27/2000
AWC-NH	Bishop	Kenneth	10/30/1972
AWC-NH	Bradley	Michael	7/2/1994
AWC-NH	Dodds	Glenn	3/19/2001
AWC-NH	Eaton	Glenn	1/1/1989
AWC-NH	Eaton	James	8/1/2005
AWC-NH	Evans	Neil	12/22/1969
AWC-NH	Wasson	Edward	1/3/2000
AWC-NH	Torrey	Adam	5/1/2003
AWC-NH	Hardardt	Donna	6/15/1986
AWC-NH	Knowlton	Pamela	7/15/1985
AWC-NH	Sherwin	Carol	7/5/2005
AWC-NH	Allen-Hemphill	Yvonne	2/8/2005
SAFETY VALVE	Piper	Barbara	9/14/1987
SAFETY VALVE	Rankins	Diane	3/14/2005
SAFETY VALVE	Tobey	Bruce	1/14/2002
SAFETY VALVE	Carvalho	Fernando	01/23/2006
AWC-CT	Roberts	Paul	12/12/1977

Section 5.11
Certain Licenses and Permits

None.

Section 8.7
Cost Sharing

Claims by third parties against Aquarion Water Company of Massachusetts and its affiliates based on the matters disclosed under item 3 of Section 3.10.

Section 9.5(b)
Seller's Knowledge

Kevin Whiteman
Philip Hudson
Martin Towers
Ian Leece
Charles V. Firlotte
Donald J. Morrissey
Howard Dunn
Jeannie Dyer
Michael F. Halloran
Sean McKiernan
Steven Halloran
John Walsh
John Herlihy
Raymond Guido
Linda Discepolo
Lucy Teixeira
Larry Bingaman
Michael Appicelli
D.J. Smiarowski

PURCHASER DISCLOSURE SCHEDULE

Macquarie Securities (USA) inc. may be entitled to a brokerage, finder's or other fee or commission in connection with the Acquisition or the other transactions contemplated by the Agreement.

KELDA GUARANTEE

KELDA GROUP PLC, a public limited company organized under the laws of England & Wales (**Kelda**) irrevocably guarantees each and every representation, warranty, covenant, agreement and other obligation of **KELDA GROUP INC.**, a Delaware corporation (**Seller**), or any of its permitted assigns, under the Stock Purchase Agreement, dated as of February 24, 2006 (the **Agreement**), by and between Seller and **MACQUARIE UTILITIES INC.**, a Delaware corporation (**Purchaser**), and the full and timely performance of Seller's obligations under the provisions of the Agreement. This is a guarantee of payment and performance, and not of collection, and Kelda acknowledges and agrees that this guarantee is full and unconditional, and no release or extinguishment of Seller's obligations or liabilities (other than in accordance with the terms of the foregoing Agreement), whether by decree in any bankruptcy proceeding or otherwise, shall affect the continuing validity and enforceability of this guarantee, as well as any provision requiring or contemplating performance by Kelda.

Kelda hereby waives, for the benefit of Purchaser, (1) any right to require Purchaser, as a condition of payment or performance by Kelda, to proceed against Seller or pursue any other remedy whatsoever and (2) to the fullest extent permitted by law, any defenses or benefits that may be derived from or afforded by law that limit the liability of or exonerate guarantors or sureties, except to the extent that any such defense is available to Seller.

Without limiting in any way the foregoing guarantee, Kelda covenants and agrees to take all actions to enable Seller to adhere to each provision of the Agreement that requires an act or omission on the part of Kelda.

The provisions of Article 9 of the Agreement are incorporated herein, *mutatis mutandis*, except that notices and other communications hereunder to Kelda shall be delivered to:

Kelda Group plc
Western House
Halifax Road
Bradford BD6 2SZ, United Kingdom
Telephone Number: +44 1274 600 111
Facsimile Number: +44 1274 608 608

Attention: Philip Hudson

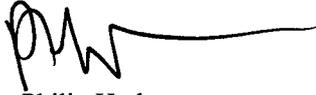
Kelda understands that Purchaser is relying on this guarantee in entering into the Agreement and may enforce this guarantee as if Kelda were a party to the Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Kelda has executed this Guarantee as of this 24th day of February, 2006.

KELDA GROUP PLC

by



Name: Philip Hudson
Title: Group Company Secretary

MACQUARIE UTILITIES INC.

by

Name: Andrew Ancone
Title: President

by

Name: Benjamin Perham
Title: Director

IN WITNESS WHEREOF, Kelda has executed this Guarantee as of this 24th day of February, 2006.

KELDA GROUP PLC

by

Name: Philip Hudson
Title: Group Company Secretary

MACQUARIE UTILITIES INC.

by


Name: Andrew Ancone
Title: President

by


Name: Benjamin Perham
Title: Director

CONTRIBUTION AGREEMENT

CONTRIBUTION AGREEMENT (this "Agreement") dated as of February 24, 2006 by and among (i) MACQUARIE UTILITIES INC., a Delaware corporation ("Purchaser"), and (ii) MACQUARIE BANK LIMITED, an Australian public limited company ("MBL") and MACQUARIE ESSENTIAL ASSETS PARTNERSHIP, a Canadian partnership ("MEAP"). Each of MBL, MEAP and their permitted assigns in accordance with this Agreement are referred to herein individually as an "Investor" and collectively as the "Investors".

R E C I T A L S

WHEREAS, Purchaser and KELDA GROUP INC., a Delaware corporation ("Seller") are parties to that certain Stock Purchase Agreement dated as of February 24, 2006 (the "Purchase Agreement");

WHEREAS, Purchaser is directly or indirectly owned by the Investors;

NOW, THEREFORE, in consideration of the premises and as an inducement for Seller to enter into the Purchase Agreement, the parties hereto agree as follows:

Section 1. Definitions. Capitalized terms used but not otherwise defined herein shall have the respective meanings given to them in the Purchase Agreement.

Section 2. Contribution.

(a) Purchaser shall give written notice to the Investors at such time as all conditions precedent to the obligations of Seller and Purchaser to consummate the Closing as set forth in Article VI of the Purchase Agreement have been satisfied (or waived by the party entitled to waive such a condition). Each Investor irrevocably promises and agrees that concurrently with the Closing it shall make or cause to be made a contribution in the form of debt or equity in immediately available funds to Purchaser in an amount equal to the product of (i) U.S.\$297 million (the "Contribution Amount"), multiplied by (ii) such Investor's percentage responsibility as set forth on Exhibit A attached hereto (which Exhibit A may be amended by the Purchaser, from time to time, to reflect the current percentage responsibility of the Investors, so long as the aggregate amount of such percentage responsibilities equals 100%) (the "Relevant Percentage").

(b) If Purchaser breaches its obligations under the Purchase Agreement, and, if as a result thereof, Purchaser is the subject of a final and binding order of a court (or other tribunal having jurisdiction) obligating it to pay any damages, costs, and expenses incurred by Seller (a "Liability"), Purchaser shall give written notice to the Investors that such Liability was incurred. Each Investor irrevocably promises and agrees that it shall make or cause to be made a contribution in immediately available funds to Purchaser within five (5) business days after receipt of such notice in an amount equal to the product of (i) the amount of the Liability, multiplied by (ii) such Investor's Relevant

Percentage; provided, however, that in no event shall any Investor be required to make a contribution pursuant to this Section 2(b) that would exceed the product of (i) the Contribution Amount, multiplied by (ii) such Investor's Relevant Percentage.

(c) If a court (or other tribunal having jurisdiction) enters a final and binding order to the effect that notice was wrongfully given pursuant to subsection (a) or (b) hereof, then the party wrongfully giving such notice shall be liable to pay to each Investor, in addition to any other damages relating to the giving of such notice, an amount equal to the documented out-of-pocket costs of each Investor (including, without limitation, the Investor's cost of capital after giving effect to related income taxes) incurred in connection with such Investor's contribution to Purchaser as a result of such wrongful notice.

(d) Notwithstanding any other provision of this Agreement to the contrary, no Investor shall have any obligation to make any contribution to Purchaser under this Agreement to the extent its contribution when aggregated with all contributions to Purchaser made as a result of any notice given by Purchaser hereunder or otherwise contributed (provided such funds have been segregated in accordance with Section 4 hereunder) equals or exceeds the product of (i) the Contribution Amount, multiplied by (ii) such Investor's Relevant Percentage.

Section 3. Representations and Warranties.

(a) Each of the Investors, severally but not jointly, represents and warrants to Purchaser as follows:

(i) Such Investor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has full power and authority to enter into this Agreement and to perform its obligations hereunder.

(ii) The execution and delivery of this Agreement by such Investor, and the performance of its obligations hereunder, have been duly authorized by all necessary action on the part of such Investor.

(iii) Such Investor has duly executed and delivered this Agreement. Assuming due authorization, execution and delivery of this Agreement by Purchaser and the other Investors, this Agreement constitutes the valid and binding obligation of such Investor, enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights and the application of general principles of equity.

(iv) All consents, authorizations and other approvals of any governmental authority which are necessary for the execution and delivery of this

Agreement by such Investor and the performance by it of its obligations hereunder have been obtained and are in full force and effect, are final and not subject to any appeal.

(v) The execution, delivery and performance by such Investor will not conflict with or result in a violation or default under any contract, agreement or order of any court or regulatory authority binding upon such Investor or any of its respective affiliates.

(b) Purchaser represents and warrants to each Investor as follows:

(i) Purchaser is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, and has full corporate power and authority to enter into this Agreement and to perform its obligations hereunder.

(ii) The execution and delivery by Purchaser of this Agreement, and the performance of its obligations hereunder, have been duly authorized by all necessary corporate action on the part of Purchaser.

(iii) Purchaser has duly executed and delivered this Agreement. Assuming due authorization, execution and delivery of this Agreement by the Investors, this Agreement constitutes the valid and binding obligation of Purchaser, enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights and the application of general principles of equity.

(iv) All consents, authorizations and other approvals of any governmental authority which are necessary for the execution and delivery of this Agreement by Purchaser and the performance by it of its obligations hereunder have been obtained and are in full force and effect, are final and not subject to any appeal.

(v) The execution, delivery and performance of this Agreement by Purchaser will not conflict with or result in a violation or default under any contract, agreement or order of any court or regulatory authority binding upon Purchaser or any of its affiliates.

Section 4. Restriction on Use. Purchaser shall segregate from its general funds any contributions made by the Investors hereunder and shall use such funds for the purpose, and only for the purpose, of satisfying its obligations to Seller under the Purchase Agreement. In the event that funds are contributed hereunder in respect of the Closing or a Liability and such Closing ultimately does not occur or such Liability ultimately is not incurred, Purchaser shall, within five (5) business days after it

is definitively determined that such Closing will not occur or such Liability will not be incurred, return such funds to the Investors.

Section 5. Termination. The obligation of the Investors under this Agreement shall terminate upon the earliest to occur of:

(a) aggregate contributions by the Investors to Purchaser of an amount equal to or exceeding the amount of the Contribution Amount in response to a notice given by Purchaser hereunder or otherwise contributed (provided such funds have been segregated in accordance with Section 4);

(b) five business days after notice of termination of the Purchase Agreement is given pursuant to Article VII thereof, unless prior to the close of business on the fifth business day after such notice the Investors receive written notice from Purchaser that Seller is actively pursuing a Liability claim (which notice Purchaser shall deliver in the event that Seller is then actively pursuing such a claim), in which case this Agreement shall terminate upon the settlement or other determination of such claim in accordance with Section 2(b) hereof and the making of any required contribution by the Investors; or

(c) the occurrence of the Closing under the Purchase Agreement.

Section 6. Miscellaneous.

(a) This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by, the parties hereto and their respective successors and permitted assigns. Each Investor, and its permitted assignees, may, at its election and without the consent of Purchaser or Seller or any other Investor, assign, in whole or in part, its rights and obligations under this Agreement to (x) any affiliate of such Investor or (y) any fund (or similar vehicle) managed by such Investor or any of its affiliates (in any such case so long as any such assignee has available funds or committed capital that is promptly callable by such assignee that equals or exceeds the product of (i) the Contribution Amount, multiplied by (ii) that portion of such Investor's Relevant Percentage subject to the assignment). In addition, each Investor may assign, in whole or in part, its rights and obligations under this Agreement to any other entity, subject to the consent of both Purchaser and Seller, which consent shall not be unreasonably conditioned, delayed or withheld. Purchaser may, at its election and without the consent of the Investors or Seller, make a security assignment of its rights under this Agreement to any lender providing financing to Purchaser or its permitted assigns in connection with the Purchase Agreement (it being understood that any rights under this Agreement shall only be exercised by Purchaser or its permitted assignees (or Seller, as provided below) and that no assignee pursuant to any security assignment shall be entitled to directly exercise any rights under this Agreement).

(b) The parties expressly acknowledge and agree that Seller is an intended third party beneficiary of this Agreement and, as such, Seller shall be entitled to directly exercise the rights of Purchaser (including the right to provide any notice under Section

2(b)) and enforce the obligations of the Investors hereunder without the concurrence of Purchaser and regardless of any claims by Purchaser against Seller, including any claims under, or the satisfaction or non-satisfaction of any obligations of Seller under, the Purchase Agreement.

(c) For the sake of clarity, the Investors obligations hereunder are several only and not joint.

(d) This Agreement contains the entire understanding of the parties with respect to the matters herein and supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof.

(e) All notices and other communications required or permitted by this Agreement or by law to be served upon or given to a party hereto (or Seller) by any party hereto shall be addressed (i) if to Seller or Purchaser, as provided in the Purchase Agreement, or (ii) if to the Investors, as set forth on Exhibit B.

(f) This Agreement may not be amended or otherwise modified except by a written agreement signed by each party hereto.

(g) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK, EXCLUDING ITS CONFLICTS OF LAWS PROVISIONS.

(h) If any provision of this Agreement shall be determined to be unenforceable, void or otherwise contrary to law, such provision shall in no manner operate to render any other provision of the Agreement unenforceable, invalid or contrary to law, and this Agreement shall continue to be operative and enforceable in accordance with the remaining terms and provisions hereof.

(i) The terms, conditions, covenants, representations and warranties hereof may be waived only by a written instrument executed by the party waiving compliance. The failure of a party at any time or from time to time to require performance of any provisions hereof shall in no manner affect its rights at a later time to enforce the same. No waiver by a party of any condition or any breach of any term, covenant, representation or warranty contained in this Agreement in any one or more instances shall be deemed to be, or be construed as, a further or continuing waiver of any such condition or breach of any other term, covenant, representation or warranty.

(j) Except for the Seller (as provided above), no person other than the parties hereto, or their successors or permitted assigns, shall have any rights hereunder.

(k) This Agreement may be signed by facsimile and may be signed in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

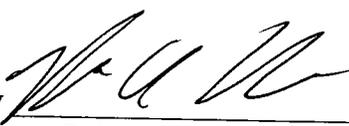
MACQUARIE UTILITIES INC.

By: 
Name: Andrew Ancone
Its: President

By: 
Name: Benjamin Perham
Its: Director

MACQUARIE BANK LIMITED

By 
Name: Andrew Ancone
under power of attorney

By 
Name: Robinson Kupchak
under power of attorney

MACQUARIE CANADIAN INFRASTRUCTURE
MANAGEMENT LIMITED, as general partner for
MACQUARIE ESSENTIAL ASSETS PARTNERSHIP

By _____
Name: Alina Osorio
Title: Chief Executive Officer

By _____
Name: Gregory Smith
Title: Director

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MACQUARIE UTILITIES INC.

By: _____
Name: Andrew Ancone
Its: President



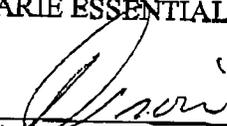
By: _____
Name: Benjamin Perham
Its: Director

MACQUARIE BANK LIMITED

By _____
Name: Andrew Ancone
under power of attorney

By _____
Name: Robinson Kupchak
under power of attorney

MACQUARIE CANADIAN INFRASTRUCTURE
MANAGEMENT LIMITED, as general partner for
MACQUARIE ESSENTIAL ASSETS PARTNERSHIP

By 
Name: Alina Osorio
Title: Chief Executive Officer

By  ASMO
Name: Gregory Smith
Title: Director

EXHIBIT A

<u>INVESTOR</u>	<u>RELEVANT PERCENTAGE</u>
MBL	66%
MEAP	34%

EXHIBIT B

If to MBL:

Andrew Ancone
Macquarie Bank Limited
c/o Macquarie Holdings (USA) Inc.
125 West 55th Street
22nd Floor
New York NY 10019 USA
(1 212) 231 1717

If to MEAP:

Alina Osorio
Macquarie North America Ltd
Canadian Pacific Tower, TD Centre
100 Wellington Street West, Suite 2200
Toronto
Ontario M5K 1J3
CANADA
(1 416) 607 5073