

SCHEDULE 2

THE COMPANIES ACTS 1985 AND 1989

COMPANY LIMITED BY GUARANTEE AND
NOT HAVING A SHARE CAPITAL

ARTICLES OF ASSOCIATION
OF
CENTRAL MARKET AGENCY LIMITED

PRELIMINARY

1. _____ The Regulations contained in Table C in the Schedule to the Companies (Tables A to F) Regulations 1985 shall not apply to the Company, but the following shall be the Regulations of the Company.

INTERPRETATION

2.1 _____ In these Regulations:-

- (a) _____ "the Act" means the Companies Act 1985 including any statutory modification or reenactment thereof for the time being in force;
- (b) _____ "the Articles" means the Articles of Association of the Company;
- (c) _____ "body" includes any association, body corporate, company, corporation, firm, foundation, institution, organisation, partnership, society, trust or aggregate of persons (whether incorporated or unincorporated);
- (d) _____ "Chairman" means at any time the person at that time holding office as chairman of the Company pursuant to Regulation 9.1;
- (e) _____ "Commission" means the body established under section 1 of the Water Industry (Scotland) Act 2002;
- (f) _____ "clear days" in relation to the period of a notice means that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect;
- (g) _____ "the Company" means Central Market Agency;
- (h) _____ "Directors" means the Directors from time to time and for the time being of the Company, and "Director" means any one of such Directors;
- (i) _____ "executed" includes any mode of execution;
- (j) _____ "Market Code" means at any time the document designated at that time as the Market Code by or under directions made by the Commission for that purpose;
- (k) _____ "Ordinary Resolution" means a resolution of the members of the Company on which more than 50 per cent of the votes cast are in favour of the resolution;
- (l) _____ "person" means any individual or body;

- | (m) ____ "Secretary" means the secretary of the Company or any other person appointed to perform the duties of the secretary of the Company, including a joint, assistant or deputy secretary;
 - | (n) ____ "Special Resolution" means a resolution of the members of the Company on which 75 per cent or more of the votes cast are in favour of the resolution; and
 - | (o) ____ "the United Kingdom" means Great Britain and Northern Ireland.
- | 2.2 ____ Unless the context otherwise requires, words or expressions contained in these Regulations bear the same respective meanings as in the Act but excluding any statutory modification thereof not in force when these Regulations become binding on the Company.
- | 2.3 ____ Words importing the singular number only shall include the plural number, and vice versa.
- | 2.4 ____ Unless the context otherwise requires, words or expressions defined in the Market Code shall have the meaning in these Articles which is given to them respectively in the Market Code.

MEMBERS

- | 3.1 ____ The members of the Company shall be the subscribers to the Memorandum of Association of the Company and such other persons as may from time to time be admitted to membership of the Company by the Directors.
- | 3.2 ____ No person shall be admitted to membership of the company who:-
- | (a) ____ has not satisfied the Admission Conditions, or
 - | (b) ____ pursuant to Section 8.2.2(ii) of the Market Code is not entitled to become a member of the Company
- | 3.3 ____ Every person who wishes to become a member of the Company shall deliver to the Company, duly executed by that person, an application for membership or consent to become a member of the Company, in either case in such form and detail as the Directors require.
- | 3.4 ____ The Directors shall not be obliged to give any reason for refusing to admit any person to membership of the Company.
- | 3.5 ____ On the Secretary receiving the application or consent required by Regulation 3.3, the Secretary shall add such application to the agenda for the next meeting of the Directors. At that meeting the Directors shall:-
- | (i) ____ approve the issue of, and issue, a certificate of membership in the Company to that applicant; and
 - | (ii) ____ instruct the Secretary to enter the name of that applicant in the register of members.
- | 3.6 ____ The members of the Company may be required to pay to the Company an annual subscription or other sums or dues requested related to the budgeting and financial administration of the Company. Different rates of annual subscription may be fixed for different members of the Company. The rate or rates of annual subscription payable by the members of the Company, the subscription year of the Company, the subscription

payment date or dates and the proportion of the annual subscription payable in respect of part only of a subscription year shall be fixed by the members of the Company in General Meeting, provided that until so determined the rate or rates of subscription, the subscription year, the subscription payment date or dates or annual or periodic dues payable and such proportion may be determined by the Directors.

- 3.7 ___ A member of the Company shall cease to be a member of the Company forthwith upon:-
- (a) ___ the delivery to the Secretary at the registered office of the Company of a notice in writing by that member resigning as a member of the Company;
 - (b) ___ the dissolution of that member;
 - (c) ___ the termination of that member's membership of the Company in accordance with Regulations 3.9 or 3.10 below; or
 - (d) ___ that member ceasing to be a Code Party for whatever reason and the Directors serving notice on that member notifying it of the termination of its membership of the Company.
- 3.8 ___ A person who ceases (for whatever reason) to be a member of the Company shall not be entitled to any refund (in whole or in part) of any subscription paid by that person to the Company.
- 3.9 ___ The Directors shall be entitled (but shall not be bound) to terminate the membership of the Company of any member of the Company:-
- (a) ___ who shall become insolvent or apparently insolvent or who shall suspend payment to or compound with that member's creditors;
 - (b) ___ in respect of whose property and undertaking, or any part thereof, a receiver is appointed;
 - (c) ___ in respect of whom an effective winding-up order is made or an effective winding-up resolution is passed (other than for the purpose of any amalgamation or reconstruction); or
 - (d) ___ in respect of whom an administration order is made.
- 3.10 ___ The Directors shall be entitled (but shall not be bound) to terminate the membership of the Company of any member of the Company if any subscription other sums or dues payable by that member to the Company:-
- (a) ___ is in excess of ten days from the payment due date; and
 - (b) ___ on or after the day specified in Regulation 3.10(a) above the Directors have issued notice to that Member to pay the outstanding amount; and
 - (c) ___ the amount invoiced has remained unpaid for a further ten days after the date of the Director's notice under Regulation 3.10(b) above; or
 - (d) ___ the Member fails to pay an amount properly due by it on three or more occasions in a twelve month period and fails to remedy such non-payment upon the first two occasions within the following periods from the date of notice thereof from the Directors:-
 - (i) ___ ten days in the first instance; and

(ii) _____ five days in the second instance.

3.11 _____ The rights and privileges of a member of the Company shall be personal and shall not be transferable or transmissible by any means.

3.12 _____ A register of the members for the time being of the Company shall be kept by the Secretary and shall contain each member's name, address and date of admission to membership of the Company and such register shall, in so far as applicable, comply with the provisions of Section 352 of the Act.

GENERAL MEETINGS

4.1 _____ The Company shall in each calendar year hold a General Meeting as the Company's Annual General Meeting in addition to any other General Meeting of the Company held in that calendar year, and the Company shall specify the General Meeting as the Annual General Meeting in the notice calling it. Not more than 15 months shall elapse between the date of one Annual General Meeting of the Company and that of the next, provided that so long as the Company holds the Company's first Annual General Meeting within 18 months of the Company's incorporation, the Company need not hold such first Annual General Meeting in the calendar year of the Company's incorporation or in the following calendar year. Each Annual General Meeting of the Company shall be held at such time and place as the Directors shall appoint.

4.2 _____ All General Meetings of the Company other than Annual General Meetings shall be called Extraordinary General Meetings.

4.3 _____ The Directors may, whenever they think fit, convene an Extraordinary General Meeting of the Company, and an Extraordinary General Meeting of the Company shall also be convened on such requisition or, in default, may be convened by such requisitionists, as provided by Section 368 of the Act. If at any time there are not within the United Kingdom sufficient Directors capable of acting to form a quorum, any Director may convene an Extraordinary General Meeting of the Company in the same manner as nearly as possible as that in which General Meetings of the Company may be convened by the Directors.

4.4 _____ An Annual General Meeting of the Company and a General Meeting of the Company called for the passing of a Special Resolution shall be called by at least 21 clear days' notice in writing, and a General Meeting of the Company other than an Annual General Meeting or a General Meeting for the passing of a Special Resolution shall be called by at least 14 clear days' notice in writing. The notice shall specify the place, the day and the hour of the General Meeting and, in the case of special business, the general nature of that business, and shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in General Meeting, to the members of the Company, to the Directors and to the Auditors of the Company; provided that a General Meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in this Regulation, be deemed to have been duly called if it is so agreed:-

(a) _____ in the case of a General Meeting called as the Annual General Meeting of the Company, by all the members of the Company entitled to attend and vote thereat; and (b) in the case of any other General Meeting, by a majority in number of the members of the Company having a right to attend and vote at the General Meeting, being a majority together representing not less than 95 per cent of the total voting rights at that General Meeting of all the members of the Company.

- 4.5 _____ The accidental omission to give notice of any General Meeting of the Company to, or the nonreceipt of a notice of a General Meeting of the Company by, any person entitled to receive notice shall not invalidate the proceedings at that General Meeting.

PROCEEDINGS AT GENERAL MEETINGS

- 5.1 _____ All business shall be deemed special that is transacted at an Extraordinary General Meeting of the Company and also all that is transacted at an Annual General Meeting of the Company, with the exception of the consideration of the accounts, balance sheets and reports of the Directors and Auditors, the election of Directors in place of those retiring and the appointment of, and the fixing of the remuneration of, the Auditors.
- 5.2 _____ No business shall be transacted at any General Meeting of the Company unless a quorum of members of the Company is present; save as herein otherwise provided three (3) members of the Company (present in person or by proxy or by representative appointed in accordance with Regulation 7.1 below) shall be a quorum. If and for so long as the Company has less than three (3) members, that number of members (present in person or by proxy or by representative appointed in accordance with Regulation 7.1 below) shall be a quorum.
- 5.3 _____ If a General Meeting of the Company has been convened upon the requisition of members of the Company and within half an hour from the time appointed for the Meeting a quorum is not present, the Meeting shall be dissolved; if within half an hour of the time appointed for any other General Meeting of the Company a quorum is not present or a quorum ceases to be present during any General Meeting of the Company, the Meeting shall stand adjourned to the same day in the following week (or, if that day is not a Business Day, the next Business Day following that day), at the same time and if at the adjourned General Meeting a quorum is not present within half an hour from the time appointed for the General Meeting, the member or members of the Company present in person or by proxy or by representative appointed in accordance with Regulation 7.1 below shall be a quorum.
- 5.4 _____ The Chairman of the Directors shall preside as chairman at every General Meeting of the Company at which he is present. If the Chairman is unable to be present at a meeting, he may appoint an alternate to act as chairman of that meeting.
- 5.5 _____ If at any General Meeting of the Company no Director is willing to act as chairman or if no Director is present within 15 minutes after the time appointed for holding the General Meeting, the members of the Company present in person or by proxy or by representative appointed in accordance with Regulation 7.1 below shall choose one of their own number to be chairman of the General Meeting.
- 5.6 _____ The chairman of a General Meeting of the Company may, with the consent of the General Meeting if a quorum is present at the General Meeting (and shall if so directed by the General Meeting), adjourn the General Meeting from time to time and from place to place, but no business shall be transacted at any adjourned General Meeting of the Company other than the business left unfinished at the General Meeting of the Company from which the adjournment took place. When a General Meeting of the Company is adjourned for 30 days or more, notice of the adjourned General Meeting shall be given as in the case of an original General Meeting of the Company. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned General Meeting of the Company.
- 5.7 _____ Subject to the provision of Regulation 6.1, at any General Meeting of the Company a resolution put to the vote of the General Meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the General Meeting or by any member of the Company present in person or by proxy or by representative appointed in accordance with

Regulation 7.1 below. Unless a poll be so demanded, a declaration by the chairman of the General Meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against the resolution.

- | 5.8 ___ Except as provided in Regulation 5.11 below, if a poll is duly demanded it shall be taken in such manner and at such time as the chairman of the General Meeting of the Company directs, and the result of the poll shall be deemed to be the resolution of the General Meeting at which the poll was demanded.
- | 5.9 ___ Any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.
- | 5.10 ___ The demand for a poll may be withdrawn.
- | 5.11 ___ A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith.
- | 5.12 ___ In the case of an equality of votes at any General Meeting of the Company, whether on a show of hands or on a poll, the chairman of the General Meeting at which the show of hands takes place or at which the poll is demanded shall not be entitled to a second or casting vote.
- | 5.13 ___ Subject to the provisions of the Act, a resolution in writing signed by all the members of the Company (or, being bodies, by their duly authorised representatives) shall be as valid and effective as if such resolution had been passed at a General Meeting of the Company duly convened and held, and may consist of several documents in the like form, each signed by or on behalf of one or more of the members of the Company.
- | 5.14 ___ The Directors shall be at liberty to invite any person or persons, not being a member or members of the Company to attend at any General Meeting of the Company. The Chairman of the Directors may invite that person to speak at the meeting (but that person will have no vote).
- | 5.15 ___ A Director shall, notwithstanding that he or she is not a member of the Company, be entitled to attend and speak at any General Meeting of the Company.

VOTES OF MEMBERS

- | 6.1 ___ Subject to the provisions of Regulation 6.2, on a show of hands every member of the Company who (being an individual) is present in person, or (being a body) is present by a duly authorised representative who is not a member entitled to vote, shall have one vote and on a poll every member of the Company shall have one vote. On a poll, votes may be given personally or by proxy or by a representative appointed in accordance with Regulation 7.1 below.
- | 6.2 ___ For the duration of any period after the Go Live Date during which any member does not have any Supply Point(s) Registered to it the vote of such member in person or by proxy at a meeting held during that period shall not be counted in the votes for or against a resolution.
- | 6.3 ___ No objection shall be raised to the qualification of any voter at any General Meeting of the Company except at the General Meeting or adjourned General Meeting at which the vote objected to is tendered, and every vote not disallowed at the General Meeting shall be valid.

Any objection made in due time shall be referred to the chairperson of the General Meeting whose decision shall be final and conclusive.

- 6.4 _____ An instrument appointing a proxy shall be in writing in common form or in any other form which the Directors shall approve and shall be under the hand of the appointor or the appointor's attorney duly authorised in writing or, if the appointor is a body, either under seal or under the hand of a duly authorised officer or attorney of the body. A proxy need not be a member of the Company.
- 6.5 _____ An instrument appointing a proxy and any authority under which it is executed and a copy of such authority certified notarially or in some other way approved by the Directors shall:-
- (a) _____ be deposited at the registered office of the Company or at such other place within the United Kingdom as is specified in the notice convening the General Meeting of the Company or in any instrument of proxy sent out by the Company in relation to the General Meeting of the Company not less than 48 hours before the time for holding the General Meeting or adjourned General Meeting at which the person named in the instrument proposes to vote; or
- (b) _____ in the case of a poll taken more than 48 hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll; or (c) where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded, delivered at the General Meeting of the Company at which the poll was demanded to the chairman of that General Meeting or to the Secretary or to any Director; and an instrument of proxy which is not deposited or delivered in a manner so permitted shall be invalid.
- 6.6 _____ An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
- 6.7 _____ A vote given or poll demanded by a proxy or by the duly authorised representative of a body shall be valid notwithstanding the previous determination of the authority of the person voting or demanding a poll unless notice of the determination was received by the Company at the registered office of the Company or at such other place at which the instrument of proxy was duly deposited before the commencement of the General Meeting of the Company or adjourned General Meeting at which the vote is given or the poll demanded or (in the case of a poll taken otherwise than on the same day as the General Meeting or adjourned General Meeting) the time appointed for taking the poll.

REPRESENTATIVES AT MEETINGS

- 7.1 _____ Subject always to Regulation 7.2 below, any body which is a member of the Company may by resolution of its directors or other governing body or committee authorise such person as it thinks fit to act as its representative at any General Meeting of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the body which that person represents as that body could exercise if it were an individual member of the Company.
- 7.2 _____ The Company may by Ordinary Resolution, passed at a General Meeting of the Company, require any member of the Company who has appointed a representative under Regulation 7.1 above to terminate the appointment of such representative on the grounds that such representative has brought the Company or the objects of the Company into disrepute, and from and after the passing of such Ordinary Resolution such representative shall not be entitled to exercise any powers on behalf of the member by whom such representative was appointed.

DIRECTORS

8.1 ___ The number of Directors shall not be subject to any maximum. The Company need have only one Director for so long as the Company is dormant within the meaning of Section 249AA of the Companies Act 1985; at any other time the Company shall have a minimum of four (4) Directors unless otherwise agreed unanimously in writing by the members of the Company.

8.2 ___ The Directors at any time shall comprise:-

(a) ___ one (1) Director nominated at that time by Scottish Water in accordance with Sections 8.3.1(iii), 8.3.2(ii)(a) and 8.3.2(iii) of the Market Code (“Scottish Water Director”);

(b) ___ up to two (2) Licensed Provider Directors who are nominated at that time in accordance with Sections 8.3.1(ii), 8.3.1(iv), 8.3.2(ii)(b) and 8.3.2(iii) of the Market Code (each being a “Licensed Provider Director”);

(c) ___ the Chief Executive Officer at that time appointed pursuant to Regulation 10.3;

(d) ___ the Chairman at that time appointed pursuant to Regulation 9.1, and

(e) ___ at least two (2) non-executive Directors, nominated at that time in accordance with Section 8.3.1(v) of the Market Code (except for the first three (3) non-executive Directors who shall be nominated by the Commission) having regard to the recommendations of the Nominations Committee provided in accordance with Regulation 8.4 (each being a “non-executive Director”).

8.3 ___ (a) ___ Any nomination by Scottish Water of a person as a nominated Director pursuant to Section 8.3.1(iii) of the Market Code shall take effect at the commencement of the year for which they are so nominated, and any removal and replacement pursuant to Section 8.3.2(ii)(a) of the Market Code of a Scottish Water Director, shall take effect upon such ~~nomination, or~~ notice of such removal and replacement, (as the case may be) being deemed to have been received by the ~~CMA~~ Secretary pursuant to Section 10.9.3 of the Market Code.

___ (b) ___ Any nomination of a person as a Licensed Provider Director pursuant to Sections 8.3.1(iv)(d) ~~or 8.3.1(d)(vii)(as the case may be)~~ shall take effect at the commencement of the year for which they are so nominated~~conclusion of the Nomination Meeting at which that person becomes such a nominated Licensed Provider Director.~~

___ (c) ___ Any removal and replacement of a Licensed Provider Director pursuant to Section 8.3.2(ii)(b) of the Market Code shall take effect upon notice of such removal and replacement being deemed to have been received by the ~~CMA~~ Secretary pursuant to Section 10.9.3 of the Market Code. As soon as reasonably practicable following receipt of such notice by the ~~CMA~~ Secretary, the ~~CMA~~ Secretary shall update the Register of Directors of the Company and notify the Registrar of Companies of such removal and replacement.

8.4 ___ (a) ___ There shall be a Nominations Committee, the membership of which shall comprise the Chairman and all non-executive Directors.

(b) ___ The quorum of the Nominations Committee shall be two (2).

___ (c) ___ The Nominations Committee shall be responsible for identifying and nominating candidates to assume the role of non-executive Director of the Company to

replace existing non-executive Directors whose term of appointment is due to expire or who have resigned or been removed from the role.

- | (d) ___ The Nominations Committee shall meet at least three (3) months in advance of the date on which an existing non-executive Director's term of appointment is due to expire in order to recommend a replacement to the Chairman.
- | (e) ___ The Nominations Committee shall meet as soon as is reasonably practicable after the Chairman is made aware that an existing non-executive Director intends to resign or has been removed from his role.
- | 8.5 ___ The business of the Company shall be managed by the Directors, who may pay all expenses incurred in promoting and registering the Company and may exercise all such powers of the Company as are not, by the Act or by the Articles, required to be exercised by the Company in General Meeting, subject nevertheless to the provisions of the Act or the Articles and to such regulations, being not inconsistent with the aforesaid provisions, as may be prescribed by the Company in General Meeting; but no regulation made by the Company in General Meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.
- | 8.6 ___ Subject to Clause IV of the Company's Memorandum of Association, the Directors shall be entitled to remuneration for any services actually provided by them to the Company and shall be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any Committee of the Directors or any General Meeting of the Company or otherwise in connection with the business of the Company.
- | 8.7 ___ The first Directors shall be such persons as shall sign the statement required by Section 10 of the Act consenting to be Directors of the Company.
- | 8.8 ___ The continuing Directors may act notwithstanding any vacancy in their number but, if and so long as their number is reduced below the number fixed by or pursuant to the Articles as the minimum number of Directors, the continuing Directors may act for the purposes of (i) increasing the number of the members of the Company, (ii) increasing the number of Directors and/or (iii) convening a General Meeting of the Company, but for no other purpose.
- | 8.9 ___ The Directors shall have power from time to time and at any time to appoint any person to be a Director of the Company either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors shall not at any time exceed the number fixed by or pursuant to the Articles.
- | 8.10 ___ The Company may by Ordinary Resolution, of which special notice has been given in accordance with Section 379 of the Act, remove from office any Director notwithstanding any thing in the Articles or in any agreement between the Company and that Director.
- | 8.11 ___ The Company in General Meeting may appoint any person to be a Director of the Company either to fill a casual vacancy or as an additional Director.
- | 8.12 ___ The office of a Director shall be vacated if he or she:-
 - | (a) ___ resigns his or her office by notice in writing sent to or left with the Secretary at the registered office of the Company; or
 - | (b) ___ is removed from office by resolution passed by the Company in General Meeting pursuant to Section 303 of the Act; or

- | (c) ___ becomes of unsound mind and the Directors resolve that he or she be removed from office; or
 - | (d) ___ becomes bankrupt or insolvent or apparently insolvent or makes any arrangement or composition with his or her creditors; or
 - | (e) ___ is prohibited by law from being a Director or ceases to hold office by virtue of any provisions of the Act; or
 - | (f) ___ accepts remuneration in contravention of Clause IV of the Memorandum of Association of the Company; or
 - | (g) ___ is no longer eligible to be appointed as a Director due to the withdrawal of membership by his or her nominating member.
- | 8.13 ___ All acts done by the Directors or by any Committee of the Directors or by any person acting as a Director or as a member of any such Committee shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or any person acting as aforesaid or that any Director or any member of the relevant Committee of the Directors was disqualified, be as valid as if every Director or every such person had been duly appointed.
- | 8.14 ___ The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking and property, or any part thereof, as security for any debt, liability or obligation of the Company or of any third party.
- | 8.15 ___ All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such a manner as the Directors shall from time to time determine.
- | 8.16 ___ The Directors shall cause minutes to be made:-
- | (a) ___ of all appointments of officers made by the Directors or by the Company in General Meeting;
 - | (b) ___ of the names of the Directors present at each meeting of the Directors and of the names of the members of any Committee of the Directors present at each meeting of the Committee; and
 - | (c) ___ of all resolutions and proceedings at all General Meetings of the Company and at all meetings of the Directors and of any Committee of the Directors.

DIRECTORS INTERESTS

- | 8.17 ___ Subject to the provisions of the Act and Regulation 8.187, and provided that he has disclosed to the Directors the nature and extent of his interest, a Director notwithstanding his office:-
- | 8.17.1 ___ may be a party to, or otherwise interested in, any existing or proposed transaction or arrangement with the Company or in which the Company is otherwise interested;
 - | 8.17.2 ___ may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is otherwise interested; and

8.17.3 ___ shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

8.18 ___ Subject to the provisions of the Act, but notwithstanding that he shall have declared his interest in the matter a Director shall not be entitled to vote or to be counted in the quorum at a meeting of the Directors or of any committee of Directors, and shall be excluded from, and shall not participate in, the determination of the Directors in regard to a matter on which he has, directly or indirectly, an interest or duty which conflicts or may conflict with the interests of the Company. In relation to an alternate Director the interest of his appointor shall be treated as the interest of the alternate in addition to any interest which the alternate may otherwise have.

8.19 ___ For the purposes of Regulations 8.176 and 8.187:-

8.19.1 ___ a general notice to the Directors that a Director is a member of a specified firm or company and is to be regarded as interested in contracts which are made with the company or firm after the date of the notice shall be deemed to be a sufficient disclosure of his interest in relation to the contract;

8.19.2 ___ a general notice given to the Directors that a Director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested shall be deemed to be a disclosure that the Director has an interest in any transaction or arrangement with the persons specified in the notice; and

8.19.3 ___ an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.

ALTERNATE DIRECTORS

8A.1 ___ Any Director (other than an alternate director) may appoint any other person previously approved by resolution of the Directors and willing to act, to be an alternate director and may remove from office an alternate director so appointed by him.

8A.2 ___ An alternate director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointer is a member, to attend and vote at any such meeting at which the Director appointing him is not personally present and generally to perform all the functions of his appointer as a Director in his absence but shall not be entitled to receive any remuneration from the Company for his services as an alternate director. But it shall not be necessary to give notice of such a meeting to an alternate director who is absent from the United Kingdom.

8A.3 ___ An alternate director shall cease to be an alternate director if his appointor ceases to be a Director; but if a Director retires by rotation or otherwise but is reappointed or deemed to have been reappointed at the meeting at which he retires, any appointment of an alternate director made by him which was in force immediately prior to his retirement shall continue after his reappointment.

8A.4 ___ Subject to Regulation 8A.1 any appointment or removal of an alternate director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

8A.5 Save as otherwise provided in the Articles, an alternate director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and he shall not be deemed to be the agent of the Director appointing him.

MEETINGS OF THE DIRECTORS

9.1(a) The first Chairman will be selected and appointed by the Commission. Such appointment will not be from among the Directors. Subsequent Chairmen will be selected, appointed, reappointed, removed and replaced by the Directors by voting in accordance with Regulation 9.12 provided always that before of the appointment of any new Chairman or the reappointment of the existing Chairman notice of such proposed appointment or reappointment shall be given to the Commission and such appointment or reappointment may only be made by the Directors where the Commission has not directed that such appointment or reappointment may not be made within twenty (20) Business Days of receipt of such notice.

(b) The Chairman shall be appointed as a Director by the Directors.

(c) The term of office of the Chairman will be a period of three (3) years. The Chairman will be eligible for reappointment on expiry of his term of office. Unless reappointed, he will cease to hold office on expiry of his term of office. He will also cease to hold office if:-

(i) he resigns from office by notice delivered to the Secretary;

(ii) the Directors resolve that he should cease to hold office; or

(iii) he ceases to be a Director.

9.2 The Chairman will preside as chairman at every meeting of the Directors at which he is present. If the Chairman is unable to be present at a meeting he may appoint an alternate to act as the Chairman of that meeting. If neither the Chairman nor his alternate is present at a meeting within half an hour of the time appointed for holding the meeting, or if the Chairman or his alternate is otherwise unable or unwilling to preside, the Directors will appoint one of their number to act as chairman of the meeting.

9.3(a) Meetings of the Board will be held at regular intervals and at least once every three (3) Months, at such time and place in Scotland as the Board may decide.

(b) Any Director may notify matters for consideration at a meeting in addition to those notified by the Secretary to all Directors not less than three (3) Business Days before the date of the meeting.

(c) The proceedings of a meeting of the Board will not be invalidated by the accidental failure to send notice of the meeting or accompanying papers to, or non-receipt of the same by, any person entitled to receive such notice and papers.

(d) Where any matter not contained in the agenda and not notified under Regulation 9.3(c) is put before a meeting of the Board, and in the opinion of the Board it is necessary, in view of the urgency of the matter, that the Board resolves upon it at the meeting, the Board may resolve upon the matter.

(e) The Directors may, by unanimous decision, decide to dispense with the requirements of Regulations 9.3 or 9.4 as to the notice required for convening a meeting in relation to any particular Board meeting.

9.4 A Director may request the Secretary to convene a Board meeting. Such a request must be accompanied by the name of one other Director who supports such additional Board meeting and detail the matters the Director wants to be discussed at the Board

meeting. The Secretary will promptly convene the requested Board meeting as soon as practicable but not less than five (5) Business Days after the request.

- 9.5 Any meeting of the Board will be convened by the Secretary by notice to each Director (and to each Affiliated Board Member). Notice will be given by electronic mail at least five (5) Business Days before the date of the meeting, accompanied by an agenda of the matters for consideration at the meeting and any supporting papers available to the Secretary at that time. Supporting papers received late will be circulated as and when received.
- 9.6 A meeting of the Board may consist of a conference between Directors who are not all in one place but who are able to speak to each of the others and to be heard by each of the others simultaneously. In this case, there is no requirement that the Directors are in Scotland. A Director or a member of the relevant Committee taking part in such a conference or telephone call shall be deemed to be present in person at the meeting and shall be entitled to vote and be counted in the quorum accordingly. Such a meeting shall be deemed to take place where the largest group of those participating in the conference is assembled or, if there is no such group where the chairperson of the meeting then is. The word "meeting" when referring to a meeting of the Directors, or of a Committee of the Directors, in the Articles shall be construed accordingly.
- 9.7 Meetings will be open to attendance by any person invited by a Director ~~or the Commission~~. The Chairman may invite that person to speak at the meeting (but that person will have no vote).
- 9.8 As soon as practicable after each meeting, the Secretary will prepare and send to the Directors the minutes of the meeting (including confirmation of all decisions taken), which will be approved (or amended and approved) at the next meeting of the Board.
- 9.9 The quorum necessary for the transaction of business of the Board may be fixed from time to time by the Directors and, unless so fixed at any other number:-
- (a) if at any time, and for so long as, there is only one (1) Licensed Provider Director will be two (2) Directors present; and
- (b) in all other circumstances will be four (4) Directors present.
- 9.10 If, within half an hour after the time for which the meeting of the Board has been convened, a quorum is not present or, if during a meeting such a quorum ceases to be present, the meeting will be adjourned to the same day in the following week (or, if that day is not a Business Day, the next Business Day following that day) at the same time. The Secretary will give notice of the adjourned meeting as far as practicable. If at the adjourned meeting there is not a quorum present within half an hour of the time for which the meeting was convened, those present in person will be a quorum.
- 9.11 At any meeting of the Board any matter to be decided will be put to a vote upon the request of the Chairman or any Director.
- 9.12 (a) Subject to Regulation 9.12(b), in deciding any matter at any meeting of the Board, each Director will be entitled to only one vote, and the chairman of any meeting shall not have an additional or casting vote.
- (b) In deciding any matter concerning enforcement action against a Trading Party, or concerning the issue of a Termination Notice to a Trading Party, any Director who is also employed by or acts under a contract for services with that Trading Party, or a member of that Trading Party's Group shall not be entitled to any vote relative to such decisions.

- | 9.13 ___ If a Director, is not present at a meeting, he may lodge a written proxy vote with the Secretary before the meeting is held, and on a vote being taken on any matter at the meeting, that proxy vote will be counted as if it was a vote cast by the Director concerned at the meeting.
- | 9.14 ___ No decision of the Board put to a vote shall be taken unless it is voted for by a simple majority of the votes cast at the meeting (and an abstention shall not be counted as a cast vote).
- | 9.15 ___ Any resolution in writing signed by or on behalf of all Directors will be valid and effectual as if it has been passed at a duly convened and quorate meeting of the Board. The resolution may consist of several instruments in like form signed by or on behalf of one or more Directors.

CHIEF EXECUTIVE AND EMPLOYEES

- | 10.1 ___ The Directors may from time to time appoint and remove a Chief Executive who shall hold office on such terms and conditions and for such remuneration as may be fixed by the Directors. Other than any matters specifically identified as exclusively reserved to the Board by the members of the Company unanimously in writing. The Directors may delegate to the Chief Executive such powers and duties as the Directors think fit.
- | 10.2 ___ The Directors may also appoint, and in the Directors' discretion remove, such employees and agents for permanent, temporary or special services as the Directors may from time to time think fit and may determine their powers and duties and fix their salaries and emoluments and other terms and conditions of employment or engagement.
- 10.3 (a) The first Chief Executive Officer will be selected and appointed by the Commission. Subsequent to such appointment the Chief Executive Officer will be selected, appointed, removed and replaced by the Directors by voting in accordance with Regulation 9.12.
- | (b) ___ The Chief Executive Officer must not be appointed from among the Directors.
- | (c) ___ The person appointed as Chief Executive Officer under Regulation 10.3(a) from time to time shall be appointed as a Director by the Directors.
- | (d) ___ The Chief Executive Officer shall have such delegated authority from the Directors as the Directors determine and shall be responsible for the day to day running of the Company. The Reserved Matters and those matters listed in Section 8.4 of the Market Code are reserved to the Directors and may not be delegated to the Chief Executive Officer.
- | (ef) ___ The Chief Executive Officer will provide such regular reports to the Directors as the Directors required.

COMMITTEES

- | 11. ___ The Board may delegate any of its powers to committees of the Board consisting of such persons (whether or not being Directors) as the Board may resolve from time to time.

SECRETARY

- | 12.1 ___ Subject to the provisions of the Act, the Secretary shall be appointed by the Directors for such term and (subject to the Memorandum of Association of the Company) at such

remuneration and upon such conditions as the Directors may think fit; and the Secretary may be removed by the Directors.

- | 12.2 ___ A provision of the Act or of the Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as a Director and as the Secretary.

SEAL

- | 13. ___ The Company shall not have a seal.

ACCOUNTS

- | 14.1 ___ The Directors shall cause accounting records to be kept by the Company in accordance with Section 221 of the Act.
- | 14.2 ___ The Directors shall, if they see fit, appoint a Treasurer of the Company at such remuneration and upon such conditions as the Directors may think fit; and the Treasurer may be removed by the Directors. The Treasurer may be the same person as the Secretary.
- | 14.3 ___ The accounting records shall be kept at the registered office of the Company or, subject to Section 222 of the Act, at such other place or places as the Directors may think fit, and shall always be open to the inspection of any Director.
- | 14.4 ___ The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of the members of the Company not being Directors, and no member of the Company shall have any right of inspecting any account or book or document of the Company except as conferred by statute, agreed by the members of the Company unanimously in writing or authorised by the Company in General Meeting.
- | 14.5 ___ The Directors shall from time to time in accordance with the Act cause to be prepared and to be laid before the Company in General Meeting an income and expenditure account, a balance sheet and report of the Directors and a report of the Company's Auditors on such account and balance sheet. The Auditors' report shall be read before the General Meeting as required by the Act.
- | 14.6 ___ A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the Company in General Meeting, together with a copy of the Auditors' report and a copy of the report of the Directors, shall, not less than 21 clear days before the date of the Meeting, be sent to all persons entitled to receive notice of General Meetings of the Company; provided that this Regulation shall not require a copy of those documents to be sent to any person of whose address the Company is not aware.

AUDITORS

- | 15. ___ Auditors of the Company shall be appointed and their duties regulated in accordance with the Act.

NOTICES

- | 16.1 ___ A notice may be served by the Company upon any member of the Company either personally or by sending the notice through the post in a pre-paid letter, properly addressed to such member at such member's registered address as appearing in the

Company's register of members, or by electronic delivery by email or otherwise to such address as the member of the Company shall notify to the Company from time to time.

- | 16.2 ___ Any person described in the Company's register of members by an address not within the United Kingdom, who shall from time to time give to the Company an address within the United Kingdom at which notices may be served upon that person, shall be entitled to have notices served upon that person at such address; save as aforesaid, only members of the Company described in the Company's register of members by an address within the United Kingdom shall be entitled to receive any notice from the Company.
- | 16.3 ___ Where a notice is sent by post, service of the notice shall be deemed to be effected:-
 - | (a) ___ in the case of a notice of a meeting, at the expiration of 48 hours after the notice was posted; and
 - | (b) ___ in any other case, at the time when the notice would be delivered in the ordinary course of post.
- | 16.4 ___ Where a notice is sent by electronic means, service of notice shall be deemed to be effected on receipt of a delivery receipt or similar acknowledgement being received by the sender which shall be conclusive evidence that the notice was given.
- | 16.5 ___ Notice of every General Meeting of the Company shall be given in any manner hereinbefore authorised to:-
 - | (a) ___ every member of the Company (except any member of the Company whose registered address in the register of members of the Company is not within the United Kingdom and who has not supplied to the Company an address within the United Kingdom for the giving of notices to that member);
 - | (b) ___ every Director; and (c) the Auditors for the time being of the Company. No other person shall be entitled to receive notice of any General Meeting of the Company.
- | 16.6 ___ A member of the Company present, either in person or by proxy or by a representative appointed in accordance with Regulation 7.1 above, at any General Meeting of the Company shall be deemed to have received notice of that General Meeting and, where requisite, of the purposes for which that General Meeting was called.
- | 16.7 ___ Proof that an envelope containing a notice was properly addressed, prepaid and posted shall be conclusive evidence that the notice was given.

INDEMNITY

- | 17. ___ Subject to the provisions of the Companies Acts (as defined in section 744 of the Companies Act 1985), but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every director or other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, provided that this Regulation 17 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Regulation 17, or any element of it, to be treated as void under the Companies Acts.

DISSOLUTION

- 18. _____ The provisions of Clause VII of the Memorandum of Association relating to the winding-up and dissolution of the Company shall have effect and be observed as if the same were repeated in the Articles.

Name and Address of Subscriber agreeing to become a Member of the Company

- Name: Scottish Water
Address: Castle House
6 Castle Drive
Carnegie Campus
Dunfermline
KY11 8GG

.....
Authorised signatory
.....
Authorised signatory / Witness Date
Details of witness (if relevant):
Name:
Address:

- Name: The Water Industry Commission for Scotland
Address: Ochil House
Springkerse Business Park
Stirling
FK7 7XE

.....
Authorised signatory
.....
Authorised signatory / Witness Date
Details of witness (if relevant):
Name:
Address: