

Press Release

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UKSA Expresses Support for the Olivant Proposal to Northern Rock

The UK Shareholders Association (UKSA), representing 4,000 shareholders in Northern Rock, has expressed support for the proposals submitted to the company by Olivant. This is what was said by the Shareholder Action Group Chairman, Roger Lawson, in a note to their supporters:

The Virgin Group Proposal

Firstly I would like to comment on the Virgin Group offer that I outlined in my previous "update". It seems that it was perhaps not clear enough in what it was implying, and I may have been too "even-handed" when writing the note. In essence we do not support the Virgin Group offer as we think it grossly undervalues the business – effectively giving a 55% controlling interest to Virgin in return for relatively little investment. In addition we don't think the structure of the deal is attractive to smaller investors.

The Olivant Proposal

The Olivant proposal is not a bid and they would not be acquiring control of the company, so in that regard it is very different to the Virgin proposal. Existing shareholders would retain ownership of the company, but with some dilution, assuming they took up the proposed "rights" issue.

A rights issue is where existing shareholders are asked to subscribe for additional shares and the cash thus raised enhances the assets of the company (and in effect in this case shores up the balance sheet). In the Olivant proposal up to £650 million would be raised from a rights issue from existing shareholders plus another £150 from Olivant itself by an issue of new shares. Both share issues would be "at or around the current market price". Major institutional shareholders representing 23% of the existing shares have already agreed to the rights issue, and to underwrite a substantial proportion of the issue.

What does this mean for smaller shareholders? It means you would be asked to subscribe for new shares, as with the Virgin proposal, but in this case there is less dilution of the value of your existing shares, and you will retain a higher proportion of the company. Olivant would obtain about 15% of the company versus the Virgin proposal for 55%. On those grounds, the Olivant proposal is clearly preferable for existing shareholders, although other aspects of the proposal also need to be taken into account of course.

Shareholders would not be forced to subscribe for shares if they did not want to do so, but the value of their existing holding would be proportionally reduced if they did not.

Olivant would also be granted "high premium" warrants over 7% of the capital of the company (i.e. options to subscribe for shares in the future), plus the Government would also be granted similar warrants over 5% - this enables the Government to participate in the "upside" if the company is successful over the next few years. This implies some further dilution for shareholders but we don't consider that unreasonable if the premium is reasonably high so that it rewards success.

Lugman Arnold of Olivant would be immediately appointed Executive Chairman of the company. The proposals include some statement of how they see the Bank of England funding being replaced. Although the details are somewhat sketchy, it suggests a quick repayment of £10 to £15 billion with the rest by the end of 2009 "through active operational management" and "accelerated through external market financing". The reaction of the Government to this proposal is clearly going to be very important in deciding whether it will succeed.

Olivant are proposing to retain the Northern Rock name, which will no doubt please many shareholders. In addition as the company will remain an independent, publicly listed entity, it is likely that the interests of other stakeholders such as the employees, the Northern Rock Foundation and others will be protected by this proposal.

Other Offers and Summary

J.C.Flowers have announced that they are dropping out of the race, but there may be other proposals still forthcoming from other parties. However, we suggest that it may be difficult to obtain offers that are more attractive than the Olivant one so far as shareholders are concerned.

For further information, please contact:

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Note that further information and our previous comments on the Northern Rock affair are available on the following page of our web site: www.uksa.org.uk/NorthernRock.htm

About the UK Shareholders Association (UKSA)

UKSA is the leading independent organisation which represents the interests of private shareholders in the United Kingdom. We campaign to protect the rights of shareholders in public companies, and to promote improved standards of corporate governance. Our educational activities, regular regional meetings, company "analyst" meetings and the resources of our web site, help to inform the public on investment management. UKSA is a "not for profit" organisation which is financially supported primarily by its individual members.