

To Northern Rock Shareholders

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Northern Rock Shareholders Action Group – Update No. 23

Government About to Make a Decision

It is expected that the Government will make a decision about their preferred solution to the problems of Northern Rock in the next day or two. It was reported by the BBC on Tuesday that the Treasury weren't happy with either the Virgin offer or the in-house company proposals led by Paul Thompson, although they considered the Virgin one superior. Both contenders were told to go away and improve their offers, otherwise the Government might take the nationalisation route as it would offer better value for the taxpayer.

This of course is equivalent to the common thief who says it is better value for them to steal from you rather than enter into a commercial transaction.

It seems that the Government was looking for at least £200 million as a fee for the guarantee they were providing, plus a warrant to subscribe for shares at a favourable price so that they could also benefit from any recovery. It was reported that both Virgin and Thompson offered less than £200 million and Thompson did not include any warrant. Subsequently it has been said that both parties improved their offers before the deadline for final offers of Saturday. As to how accurate these stories are that have been printed in the press is difficult to say, but it's probably a fair summary of the issues being negotiated upon. It is obvious that the Government is "talking tough" so as to try to get the best deal it can, and whether their threats of nationalisation are real or imagined it is impossible to deduce – it may simply be a ploy to raise the offers because it would not appear to make much sense for the Government to go down that route (see later).

The Thompson offer was also made more attractive by an increase in the level of cash to be raised in the prospective rights issue from £500m to £700m. The two final offers have now been submitted to the Treasury.

Why the Government Would be Stupid to Go for Nationalisation

The Government has made it clear that if they go for nationalisation they would not offer any compensation to shareholders. They have made this absolutely plain – in other words your shares would be confiscated from you and nothing paid.

But SRM Global have publicly stated that they would challenge this in court and have already taken legal advice on this subject, and we would probably support them from the advice we have also taken. The only fair basis for nationalisation would be over £4 per share which is the net asset value of the company.

Does the Government really want to fight a protracted law suit over this issue while coming up to the next General Election? Look what happened in the similar case of Railtrack where the actions of the Government, its Ministers and Treasury officials were scrutinised in detail in the courts and publicly reported at length, much to the discredit of many of them.

Nationalisation Might Induce Another Exit of Depositors

Another issue that the Government does not seem to have considered is that many shareholders in Northern Rock are also depositors. Will such depositors wish to continue to hold their money in Northern Rock when the new owners have effectively confiscated their shares? Personally I would never do business with any organisation that treated me like that, so the Government might find it had to increase it's funding of the company rather than reduce it.

Why the Government Would also be Stupid to Go for the Virgin Proposal

If the Government wants to avoid nationalisation they would need to choose the Virgin proposal or the one from Paul Thompson. There seems little difference in the two deals so far as the Government is concerned. But if they choose Virgin, Prime Minister Brown may be attacked for giving help to his friends. It is also very difficult to see how they could get the Virgin proposal through any vote of shareholders even if they called in all the favours they were owed (as they did with Railtrack with some success). In the case of Northern Rock it was clear from the vote at the Extraordinary General Meeting that potentially the combination of SRM, RAB, a few other institutions, and private shareholders lead by UKSA can deliver 65% of the shareholders who might vote. How can that be overcome?

Normally it would require a 75% majority vote (with a "Special Resolution") to pass the kind of corporate restructuring that Virgin is proposing. There is a suggestion in the Telegraph that they might be able to do with it with an "Ordinary Resolution" that only requires 50% and hence and hence "*they might be able to win*". But my view is that Virgin are living in cloud cuckoo land if they think that will happen, even after a vigorous PR campaign by Branson. The more shareholders I talk to, the more opposition there seems to be to any proposal from Virgin, for the reasons that were well explained in our last "update" note.

Why the Board would be Unwise to Go for the Virgin Proposal

In any case, the Board of Directors of Northern Rock would need normally to recommend the Virgin vote to shareholders when it is put to the latter, and why would the Board do that when it clearly is not in the interests of shareholders in comparison with their own in-house proposal (and there is not much difference between the bids so far as other stakeholders are concerned so far as we know). Certainly they need to consider all the stakeholders but their fiduciary duties certainly do not mean they should blindly do what they are told by the Government who is only a lender to the Company. They might of course be on the receiving end of law suits in respect of their actions if they act unreasonably or unfairly or permit the Government to act as a "shadow director" of the Company.

Another Prime Minister's Petition to Sign

We have of course made representations on the above to the Prime Minister, the Chancellor of the Exchequer and others. Robert Bacon has set up a new on-line petition asking the Prime Minister to take more notice of the plight of small shareholders and I would encourage you to sign it which you can do by clicking on this link:

<http://petitions.pm.gov.uk/smallshareholders/> .

This is not the same petition as the one we previously told you about, but a new one so please sign this one in addition. Note that the close date for this petition is the 3rd March so please sign it as soon as possible.

Calls to Shareholders by “Boiler Rooms” or similar

I have been told by a couple of Northern Rock shareholders that they have been called by US based companies trying to sell them shares in small companies so that they can “recover their losses on Northern Rock”. Unfortunately these salesmen are following the normal practice of “boiler rooms” even if the companies they are promoting may exist. They obtain your names off the share register and then use directory inquiries to contact you, followed by an aggressive, persistent and persuasive sales pitch. Note that the share register is a public document accessible by anyone, but you can be assured that we have not passed your contact details to other people.

Please ignore these calls as it is illegal to contact shareholders out of the blue in this manner and you should not consider any investment propositions from such people (and the ones I have been told about sounded highly suspicious).

Activities by UKSA

We have continued to write to shareholders on the share register so as to build up our contacts in preparation for any decisive vote on the future of the Company. If you have any suggestions for what else we might do, please let me have them.

It would seem that the Government may be lining up to a battle unless they see sense in the next few days, so if you haven't yet contributed to our appeal fund then please consider doing so (see www.uksa.org.uk/Northern_Rock_Appeal_Letter.pdf for how to contribute). If escalation rather than reasonable compromise does take place then we will need more resources to represent you properly.

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