

SOUTHERN WATER SERVICES (FINANCE) LIMITED ANNOUNCES A CONSENT SOLICITATION

26 October 2021

Overview

Southern Water Services (Finance) Limited (the “**Issuer**”) today announces a consent solicitation in respect of the following series of bonds (the “**Bonds**”):

- (a) Sub-Class A1 £350,000,000 6.192 per cent. Wrapped Bonds due 2029 (XS0172989252) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (b) Sub-Class A2a £150,000,000 Index-Linked Wrapped Bonds due 2034 (XS0173036194) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (c) Sub-Class A2b £35,000,000 Limited Indexed Wrapped Bonds due 2034 (XS0173059998) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (d) Sub-Class A4 £350,000,000 6.640 per cent. Unwrapped Bonds due 2026 (XS0172992637) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (e) Sub-Class A5 £150,000,000 Index-Linked Unwrapped Bonds due 2023 (XS0173041517) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (f) Sub-Class A8 £150,000,000 5.00 per cent. Wrapped Bonds due 31 March 2041 (XS0220566383) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited);
- (g) £200,000,000 Sub-Class A9 4.50 per cent. Wrapped Bonds due March 2052 (XS0271386244) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited); and
- (h) £300,000,000 Sub-Class A10 5.125 per cent. Wrapped Bonds due September 2056 (XS0308998144) (guaranteed by Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited).

For the avoidance of doubt, the Issuer has not included the £375,000,000 Sub-Class A12 2.375 per cent. Fixed Rate Sustainable Bonds due 2028 (XS2180916525), the £450,000,000 Sub-Class A13 3.000 per cent. Fixed Rate Sustainable Bonds due 2037 (XS2180916871) and the £300,000,000 Sub-Class A14 1.625 per cent. Fixed Rate Sustainable Bonds due 2027 (XS2325617939) (together, the “**Substituted Class A Bonds**”) in the Consent Solicitation as the substitution of the New UK Issuer as the issuer of the Substituted Class A Bonds will be automatically effected in accordance with Condition 3(d) of the terms and conditions of the Substituted Class A Bonds.

Capitalised terms used in this announcement and not defined herein shall have the meanings ascribed to them in the Solicitation Memorandum dated 26 October 2021 (the “**Solicitation Memorandum**”).

Meeting of Bondholders

A single meeting of Bondholders has been convened in respect of all series of Bonds as listed above to consider, and if thought fit, pass the Extraordinary Resolution to approve the Proposals (being the STID Proposal and the Substitution Proposal) and their implementation, and such Meeting shall take place via teleconference at 11.00 a.m. (London time) on 23 November 2021.

Bondholders who do not wish to attend (via teleconference) the Meeting but who wish to vote must take action prior to 4.00 p.m. (London time) on 18 November 2021 (the “**Expiration Time**”), subject to amendment, termination or withdrawal by the Issuer and any earlier deadlines set by the Clearing Systems or any intermediary through which such Bondholders hold their Bonds.

In light of ongoing developments in relation to the COVID-19 pandemic, it may be impossible or inadvisable to hold the Meeting at a physical location. Therefore, in accordance with the provisions of the Bond Trust Deeds further regulations regarding the holding of the Meeting will be prescribed providing that the Meeting (and any adjourned Meeting) will be held via teleconference. Accordingly, the Meeting (and any adjourned Meeting) will not be convened at a physical location. In such circumstances, those Bondholders who have indicated that they wish to attend the Meeting will be provided with further details about attending the Meeting (and any adjourned Meeting) via teleconference.

Background

The Issuer is incorporated in the Cayman Islands.

The Issuer is managed and controlled in the UK and is solely UK tax resident, having submitted tax returns to HM Revenue & Customs since its establishment. Notwithstanding this, for a number of years there has been negative press coverage and speculation on UK water companies using financial subsidiaries incorporated in the Cayman Islands, which has led to the inaccurate perception that the use of Cayman Islands-incorporated financing subsidiaries is for tax avoidance purposes. Furthermore, UK water and sewerage companies are being subjected to increasing pressure and scrutiny from the economic regulator Ofwat.¹

Southern Water Services Limited (“**SWS**”) is of the view that maintaining a financing structure which includes the Issuer could be prejudicial to its relations with, and future price determinations by, Ofwat. In addition, it could impact its ability to sustain the trust and confidence of its customers as it seeks to improve the transparency of its business. Consequently, the interests of the Secured Creditors may be adversely affected.

On 13 April 2018, SWS announced its intention to remove the Issuer from its corporate structure and the Proposals as more fully described in the Solicitation Memorandum set out the necessary steps to achieve this objective.

The Proposals

As more fully set out in the STID Proposal, it is envisaged that two new wholly owned direct subsidiaries of SWS will be incorporated in the UK, one as a public limited company (the “**New UK Issuer**”) and one as a private limited company (the “**New UK DebtCo**”) and that the debt issued by the Issuer will have its issuer and/or principal debtor substituted for the New UK Issuer (in respect of the Bonds and certain other existing debt) and the New UK DebtCo (in respect of certain other existing debt).

¹ Please see the article entitled “PN 17/17: Ofwat boss talks of the ‘decade of falling bills’” (<https://www.ofwat.gov.uk/pn-1717-ofwat-boss-talks-decade-falling-bills/>) where the Chairman of Ofwat, Jonson Cox is quoted as saying “*Customers often trust their local water company, but when firms construct highly complex, offshore capital structures, they do so at a cost to customer trust.*”

Following approval and implementation of the substitution (and the other steps more fully set out in the STID Proposal (appended at Schedule 3 to the Solicitation Memorandum)), the Issuer would be disposed of from the SWS Financing Group and subsequently dissolved on a solvent basis.

The Bonds, private placement notes and their related liquidity facilities will be transferred to the New UK Issuer. The term facilities agreement of the Issuer with each of Artesian Finance plc and Artesian Finance II plc will be transferred to the New UK DebtCo in order to support the securitisation tax company status of the New UK Issuer.

Furthermore, Secured Creditors should note that the Substitution Proposal outlined in the Solicitation Memorandum is subject to the Extraordinary Resolution. If the Extraordinary Resolution is not passed, the Issuer will not be substituted and the Bondholders will remain with the Issuer as the current issuer of their debt as it currently stands and will not receive the Instruction Fee. Bondholders should also note that, to the extent the Substitution Proposal goes ahead, the Bonds will continue to be listed on the main market of the London Stock Exchange following the implementation of the Substitution Proposal. The STID Proposal is not, however, conditional upon the Extraordinary Resolution, with the effect that if the Extraordinary Resolution does not pass the STID Proposal may still be approved and certain aspects of it may be implemented.

For detailed information on the Proposals, including the steps envisaged to achieve the removal of the Issuer from the SWS Financing Group, see the form of the STID Proposal (appended at Schedule 3 to the Solicitation Memorandum).

Amendment Conditions

Implementation of the transactions set out in the STID Proposal is conditional on:

- a) Rating Agency confirmations from any two of the Rating Agencies confirming that the Transaction (as defined in the form of the STID Proposal appended at Schedule 3 to the Solicitation Memorandum) would not cause a downgrade or removal of the then current credit rating of the Bonds (or where a Rating Agency is not willing to provide its confirmation due to its prevailing policy regarding the issue of rating affirmations, a certificate in writing from SWS addressed to the Security Trustee certifying that, in its opinion (and where the relevant Rating Agency was prepared to consult with SWS, this opinion is based on consultation with such Rating Agency) the Transaction would not cause a downgrade or removal of the then current credit rating of the Bonds);
- b) the approval of the STID Proposal and the announcement by the Security Trustee of such approval;
- c) the execution of documentation in respect of the accession of each of the New UK Issuer and the New UK DebtCo to certain transaction documents;
- d) the delivery to the Security Trustee of certain legal opinions of Linklaters LLP as to matters of capacity and enforceability of certain transaction documents;
- e) certifications of Southern Water Services Limited as to certain matters set out more fully in the STID Proposal; and
- f) the other conditions set out in paragraph 5 (*Comfort Package*) of the form of the STID Proposal (appended at Schedule 3 to the Solicitation Memorandum),

(the “**Amendment Conditions**”).

The Issuer will announce satisfaction of the Amendment Conditions as soon as practicable thereafter.

The approval threshold in respect of the STID Proposal is a simple majority of votes cast during the Voting Period or, if sooner, approval by more than 50 per cent. of the principal amount outstanding of Qualifying Class A Debt, in each case provided that any Secured Creditor whose Entrenched Rights are affected has also approved the STID Proposal.

It is intended that the transaction will be implemented within six months of the STID Voting Date, however the timing for the implementation of the transaction shall be at SWS’s sole and absolute discretion.

Instruction Fees

Subject to the conditions set out in the Solicitation Memorandum, including the approval of the Extraordinary Resolution, the approval of the STID Proposal and the announcement by the Security Trustee of such approval, the Issuer will pay to a holder of the Bonds who has delivered a valid Electronic Voting Instruction in respect of the Extraordinary Resolution which has been received by the Tabulation Agent at or prior to the Instruction Fee Deadline, which has not been validly withdrawn following the Instruction Fee Deadline and/or at or prior to the Expiration Time and which remains in full force and effect until the conclusion of the Meeting, the instruction fee equal to 0.025 per cent. of the principal amount outstanding of such Bonds the subject of the relevant Electronic Voting Instruction (the “**Instruction Fee**”). The Instruction Fee shall be paid on the relevant Payment Date via the relevant Clearing System for onward payment to the cash account of an eligible holder of the Bonds in such Clearing System. The payment of any such amounts to the relevant Clearing System will discharge the obligations of the Issuer in respect of the Instruction Fee to all such relevant Bondholder(s).

Holders of Bonds will not be eligible to receive the Instruction Fee if (i) they do not submit a valid Electronic Voting Instruction which has been received by the Tabulation Agent at or prior to the Instruction Fee Deadline, (ii) if they attend (via teleconference) the Meeting and vote in person, (iii) they revoke their instructions after the Instruction Fee Deadline and/or on or prior to the Expiration Time or (iv) they unblock their Bonds prior to the Payment Date.

It is a condition to the Issuer’s obligation to pay or procure the payment of the Instruction Fee to relevant holders of Bonds that (A) (i) the STID Proposal has been approved and (ii) the Security Trustee has announced such approval and (B) the Extraordinary Resolution has been approved. Such condition(s) are waivable at the discretion of the relevant Issuer.

Expected Timetable

Event	Date
Announcement of Proposals, delivery of the STID Proposal and Notice of Meeting given to Bondholders through the Clearing Systems.	26 October 2021
Electronic copies of the Solicitation Memorandum and the draft amendment documentation in respect of each of the CTA, MDA, STID, the SW Tax Deed of Covenant, the CP Agreement, Bond Trust Deeds, Agency Agreements, the Security Documents and the Account Bank Agreement to be made available from the Tabulation Agent (copies of which are obtainable by Bondholders upon request, free of charge).	

Event	Date
Instruction Fee Deadline: Latest time and date for receipt of valid Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems for holders of Bonds to be eligible for payment of the Instruction Fee.	4.00 p.m. (London time) on 12 November 2021
Expiration Time: Latest time and date for (i) receipt of valid Electronic Voting Instructions by the Tabulation Agent through the Clearing Systems (such Electronic Voting Instructions are irrevocable from this date), (ii) obtaining a voting certificate from the Principal Paying Agent and for the issuance or revocation of a voting instruction given other than by way of an Electronic Voting Instruction and (iii) making other arrangements to be represented or to attend (via teleconference) and vote at the Meeting.	4.00 p.m. (London time) on 18 November 2021
Time and date of the Meeting (via teleconference).	11.00 a.m. (London time) on 23 November 2021 as set out in the Notice of Meeting
Notice of results of the Meeting to be given to Bondholders through the Clearing Systems.	Promptly following conclusion of the Meeting on 23 November 2021
STID Voting Date.	25 November 2021 (or, if the Meeting is adjourned, as notified by SWS)
Announcement of results at STID level.	25 November 2021 or earlier, subject to the STID Proposal, should the Security Trustee have received votes in favour of the Proposals from DIG Representatives representing more than 50 per cent. of the total principal amount outstanding of Qualifying Class A Debt
If the STID Proposal is approved and the Security Trustee has announced such approval and the Extraordinary Resolution is	

	Event	Date
approved	Payment of the Instruction Fee to those holders of Bonds who are eligible for payment in accordance with the conditions set out in the Solicitation Memorandum.	On the Payment Date which is expected to be on or about the fifth Business Day following the announcement of the results at STID level, if, <i>inter alia</i> , the STID Proposal and the Extraordinary Resolution are both approved.

If the Amendment Conditions are satisfied

Execution of amendment documentation in respect of each of the CTA, MDA, STID, the SW Tax Deed of Covenant, the Bond Trust Deeds, the Agency Agreements, the CP Agreement, the Security Documents and the Account Bank Agreement and implementation of the transactions set out in the STID Proposal.	On the Amendment Date – currently expected to occur within six months of the STID Voting Date (but, in any event, to be implemented at a time which is at SWS's sole and absolute discretion).
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All of the above dates are subject to earlier deadlines that may be set by the Clearing Systems or any intermediary.

Bondholders are invited to access read-only copies of an investor presentation prepared in connection with the Consent Solicitation. Please refer to the Solicitation Memorandum for access details.

General

Subject to applicable law and as provided herein, the Issuer may, in its sole discretion, amend the terms of (save for the terms of the Extraordinary Resolution or the Expiration Time), terminate or withdraw the Consent Solicitation at any time up to the Solicitation Amendment Deadline.

Bondholders are advised to check with the bank, securities broker, trust company, custodian, Clearing System or other intermediary through which they hold their Bonds whether such intermediary will apply different deadlines for participation to those set out in the Solicitation Memorandum and, if so, should adhere to such deadlines if such deadlines are prior to the deadlines set out in the Solicitation Memorandum.

In relation to the delivery or revocation of Electronic Voting Instructions, in each case, through the Clearing Systems, Bondholders holding Bonds in Euroclear or Clearstream, Luxembourg should note the particular practice of the relevant Clearing System, including any earlier deadlines set by such Clearing System.

Only Direct Participants in Euroclear or Clearstream, Luxembourg may deliver Electronic Voting Instructions. Bondholders who are not Direct Participants in Euroclear or Clearstream, Luxembourg should arrange for the accountholder through which they hold their Bonds to deliver an Electronic Voting Instruction on their behalf to the relevant Clearing System as more particularly described in the Solicitation Memorandum. The deadlines specified by the relevant Clearing System may be earlier than the Instruction Fee Deadline and/or the Expiration Time.

Bondholders are advised to read carefully the Solicitation Memorandum for full details of and information on the procedures for participating in the Consent Solicitation.

A complete description of the terms and conditions of the Consent Solicitation will be set out in the Solicitation Memorandum.

For Further Information:

Further details on the Consent Solicitation and copies of the Solicitation Memorandum can be obtained from:

The Sole Solicitation Agent

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Attention: Liability Management

The Tabulation Agent

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Attention: Jacek Kusion / Harry Ringrose

Disclaimer

This announcement must be read in conjunction with the Solicitation Memorandum. The Solicitation Memorandum contains important information which should be read carefully before any decision is made with respect to the Consent Solicitation. If any Bondholder is in doubt as to the action it should take, it is recommended to seek its own financial advice, including as to any tax consequences, from its stockbroker, bank manager, solicitor, accountant, independent financial adviser authorised under the Financial Services and Markets Act 2000 (if in the United Kingdom) or other appropriately authorised financial adviser. Any individual or company whose Bonds are held on its behalf by a broker, dealer, bank,

custodian, trust company or other nominee must contact such entity if it wishes to participate in the Consent Solicitation. This announcement is issued by Southern Water Services Limited. None of the Sole Solicitation Agent, the Security Trustee or the Bond Trustee accepts any responsibility for the contents of this announcement.

This announcement is released by Southern Water Services Limited and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**UK MAR**”), encompassing information relating to the Proposals described above. For the purposes of UK MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055 as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018, this announcement is made by Richard Manning (Company Secretary) at Southern Water Services Limited.

Legal Entity Identifier numbers:

Southern Water Services Limited – 54930007FJVKQFI3NF97

Southern Water Services (Finance) Limited – 213800BTY35K1724Z452