



STID Proposal

- To: Deutsche Trustee Company Limited (as "**Security Trustee**")
Winchester House
1 Great Winchester Street
London EC2N 2DB
Attention: Managing Director
- From: Southern Water Services Limited (as "**Proposer**")
Southern House
Yeoman Road
Worthing
West Sussex
BN13 3NX
- Date: 28 January 2021
- Re: STID Proposal in respect of (i) Master Definitions Agreement dated 23 July 2003 (as amended and/or restated from time to time) between, among others, the Proposer and the Security Trustee (the "**MDA**"), (ii) Common Terms Agreement dated 23 July 2003 (as amended and/or restated from time to time) between, among others, the Proposer and the Security Trustee (the "**CTA**") and (iii) the Conditions Precedent Agreement dated 23 July 2003 (as amended and/or restated from time to time) between, among others, the Proposer and the Security Trustee (the "**CP Agreement**")
- 1 In accordance with clause 9 (*Voting Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID, please find below proposed modifications and consents in relation to the MDA, the CP Agreement and CTA which require the consent of the Majority Creditors or the Super Majority Creditors (as applicable) (the "**STID Proposal**").
 - 2 Capitalised terms that are not otherwise defined in this STID Proposal have the meanings given in the MDA.
 - 3 **Background**
 - 3.1 **Strengthening the Financial Resilience of SWS**
 - 3.1.1 As with other organisations, SWS has been carefully considering the impact of COVID-19 on its business, operations and resilience. As a result of resilience and contingency planning, SWS has undertaken and is continuing to undertake significant contingency planning which has included analysis of the Finance Documents in various downside scenarios, including COVID-19 and other factors.
 - 3.1.2 Although the full implications remain uncertain as at the date of this STID Proposal, SWS expects that the impact from the pandemic could affect the timing of SWS's cash receipts from both household customers and non-household retailers.

In addition, the impact of COVID-19 has resulted in increased and unplanned operational expenditure for SWS. Both a decrease in timely receipts from customers and an increase in operational expenditure have a negative impact on SWS's interest cover ratios as set out in the Common Terms Agreement and therefore the impact of COVID-19 and its wider impact on the economy may have a negative impact on SWS.

As part of its wider financial contingency planning, SWS has also determined that based on the credit ratings currently ascribed to the Issuer's Class A Bonds, (Baa3/BBB+/BBB+), there is a risk that negative rating action could prejudice SWS's ability to operate and finance itself. SWS is not aware of any potential negative rating action, however due to the current levels of uncertainty in the broader economy and SWS's ambitious delivery plans for AMP7, some degree of rating instability is outside of SWS's control and may have potentially damaging consequences for SWS if it were to occur.

It is for these reasons that SWS has decided to pursue this STID Proposal.

- 3.1.3** As a result of such contingency planning, SWS wishes to make some technical amendments to the Finance Documents which it considers to be in the interests of both the Secured Creditors and SWS in order to manage the occurrence of certain Trigger Events (should they occur). SWS believes that, although the occurrence of a Trigger Event results in certain restrictions being placed on the SWS Financing Group which would be expected (for example, restrictions on Restricted Payments), there are other consequences which are unexpected and prejudice rather than protect Secured Creditors and the core business of SWS.
- 3.1.4** The Proposer is seeking consent in order to clarify that the SWS Financing Group would be permitted, whilst certain Trigger Events are continuing, to incur certain Financial Indebtedness for limited purposes including drawing and rolling-over drawdowns under its revolving credit facility. In addition, a clarification in respect of the Liquidity Facilities is being sought to ensure that Secured Creditors are fully afforded the protections offered by the Liquidity Facilities.
- 3.1.5** SWS believes that it is in the best interests of Secured Creditors and SWS's customers that the SWS Financing Group continues to be able to draw on existing debt facilities following certain Trigger Events in order that SWS's senior management is able to focus on ensuring that SWS continues to provide essential services and operating capability.
- 3.1.6** Each amendment, and the rationale behind such amendment, is explained in further detail in the following paragraphs.
- 3.1.7** As at the date of this STID Proposal, were a Compliance Certificate to be delivered, there would be no Default (which term includes both Trigger Events and Potential Trigger Events) continuing and there was no Default on delivery of the Compliance Certificate in connection with the 30 September 2020 interim Financial Statements.

The following modifications and consents are being sought:

4 Amendment to the definition of Permitted Financial Indebtedness and inclusion of additional definitions

- 4.1** Pursuant to paragraph 11 (*Financial Indebtedness*) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the CTA, no Obligor may incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of SWS, indebtedness under Permitted Volume Trading Arrangements. Paragraph (g) of the definition of Permitted

Financial Indebtedness in the MDA sets out certain conditions for the incurrence of further Financial Indebtedness which is not already considered Permitted Financial Indebtedness by complying with one of the other limbs of such definition. One of the conditions under paragraph (g)(i) of the definition of Permitted Financial Indebtedness is that:

"at the time of incurrence of that Financial Indebtedness, no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness".

4.2 The occurrence of a Trigger Event which is continuing means that a Default is continuing, and so, whilst a Trigger Event is continuing, no Obligor would be able to incur any Financial Indebtedness pursuant to paragraph (g) of the definition of Permitted Financial Indebtedness.

4.3 In the course of its contingency planning, SWS has determined that the following two Trigger Events pose the most significant near-term risk for SWS:

4.3.1 A Trigger Event under paragraph 1 (*Financial Ratios*) of Part 1 (*Trigger Events*) of Schedule 6 (*Trigger Events*) to the CTA; and

4.3.2 a Trigger Event under paragraph 2 (*Credit Rating Downgrade*) of Part 1 (*Trigger Events*) of Schedule 6 (*Trigger Events*) to the CTA,

such Trigger Events being the "**Relevant Trigger Events**". Additionally, in the case of any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived, become a Relevant Trigger Event, such event would be a "**Potential Relevant Trigger Event**".

4.4 Ensuring that SWS is able to continue to incur Financial Indebtedness whilst Relevant Trigger Events are continuing is essential in enabling SWS to operate effectively and to minimise the risk of an Event of Default occurring through lack of available financial resources. This is also part of the prudent financial management of the SWS Financing Group for the following reasons:

4.4.1 Working capital facilities

Ensuring that sufficient working capital is available and that SWS is able to access working capital facilities during the occurrence of a Relevant Trigger Event which is continuing will permit SWS to, among other things, efficiently meet the tests of liquidity for capital expenditure and working capital it is obliged to comply with (as set out in paragraph 5 of Schedule 6 to the CTA and paragraph 8 of Part 2 of Schedule 7 to the CTA), to support its going concern assessments for the annual and interim financial statements, and to continue to operate in an efficient manner by being able to properly manage the balance between the short/medium term timing of cash inflows and cash outflows commensurate with the nature of its business as a water and sewerage company.

4.4.2 Refinancing

In the event that a maturity date arises where a Relevant Trigger Event is continuing, the Obligors would be unable to refinance the relevant Financial Indebtedness on the current terms of the CTA. SWS believes that it is in the best interests of the Secured Creditors and all of SWS's stakeholders that such a restriction should be eased such that SWS can incur such further Financial Indebtedness in certain scenarios even where a Relevant Trigger Event is continuing so that SWS can

continue to operate, deliver on its commitments to both its customers and Ofwat and refinance its debts where a Relevant Trigger Event is continuing.

Furthermore, SWS is committed to prudent financial management, which includes optimising when it refinances its existing debt with the right market conditions or other favourable circumstances, and such time may be when a Relevant Trigger Event has occurred and is continuing.

4.4.3 Ofwat performance commitments and outcome delivery incentives

The SWS Financing Group continues to be subject to the mechanics by which Ofwat incentivises delivery of performance commitments with outcome delivery incentives (“ODIs”). Underperformance against the relevant performance commitments may lead to financial penalties for SWS under the ODIs, which could have an adverse effect on SWS’s operational performance, profitability and reputation. It is therefore critical for the SWS Financing Group that SWS is able to continue to work towards achieving the performance commitments, thereby ensuring adequate working capital, in particular in a scenario where a Relevant Trigger Event may have occurred and is continuing.

4.5 Therefore, notwithstanding that a Relevant Trigger Event may have occurred and be continuing, the Proposer believes that it would be in the best interests of the Secured Creditors to allow the SWS Financing Group to finance and fund the expenditure required to meet SWS’s performance commitments where a Relevant Trigger Event is continuing.

4.6 In order to ensure the financial resilience of the SWS Financing Group, the Proposer requests the Super-Majority Creditors to consent to:

4.6.1 the amendment to the definition of “Permitted Financial Indebtedness” in Schedule 2 (*Common Definitions*) to the MDA such that the following are added as new limbs (h), (i) and (j):

“(h) *the drawing in full or in part of any O&M Reserve Facility in accordance with their terms provided that such Financial Indebtedness referred to in this paragraph (h):*

- (a) *is incurred at such time where no LF Event of Default is continuing or would arise as a result of the incurrence of such Financial Indebtedness;*
- (b) *the amount drawn does not exceed the excess of the O&M Reserve Required Amount over the amounts (including the value of any Authorised Investments) standing to the credit of the O&M Reserve Account;*
- (c) *the amount drawn is limited to amounts required in order to pay operating expenditure and Capital Maintenance Expenditure that cannot be met from existing balances in the Operating Accounts; and*
- (d) *is provided by persons who have acceded to the CTA and the STID;*
or

- (i) *the drawing in full or in part of any DSR Liquidity Facilities in accordance with their terms provided that such Financial Indebtedness referred to in this paragraph (i):*
 - (a) *is incurred at such time where no LF Event of Default is continuing or would arise as a result of the incurrence of such Financial Indebtedness;*
 - (b) *the amount drawn does not exceed the excess of the Required Balance over the amounts (including the value of any Authorised Investments) standing to the credit of the Debt Service Reserve Account;*
 - (c) *is limited to amounts drawn under paragraph 8.6.2 of Schedule 12 (Cash Management) to the CTA in order to pay Senior Debt; and*
 - (d) *is provided by persons who have acceded to the CTA and the STID; or*
- (j) *such further Financial Indebtedness incurred by the Issuer or SWS that complies with the following conditions:*
 - (i) *is Financial Indebtedness:*
 - (A) *incurred for the purposes of working capital, operational expenditure or maintenance capital expenditure which is incurred under the revolving facility agreement between, inter alia, SWS (as borrower) and Banco Santander S.A., London Branch (as agent) dated 26 November 2014 (as amended, amended and restated and/or replaced from time to time), provided that no more than £330,000,000 of Financial Indebtedness is outstanding under such agreement at any time;*
 - (B) *(in addition to the Financial Indebtedness incurred under limb (A) above) the incurrence of further Financial Indebtedness by the SWS Financing Group for the purpose of refinancing any Authorised Credit Facilities that are or any existing Financial Indebtedness that is due to expire, mature, terminate and/or be redeemed within two years from the date of such incurrence (“Refinancing Purposes”), provided that the incurrence of new Financial Indebtedness for Refinancing Purposes shall not exceed an amount equal to the nominal amount outstanding in respect of the Financial Indebtedness to be refinanced plus all indexation accrued but unpaid (or expected to have accrued) on such Financial Indebtedness which is indexed together with any interest due and unpaid at the date such Financial Indebtedness is intended to be refinanced;*
 - (C) *(in addition to any Financial Indebtedness incurred under limbs (A) and (B) above), incurred for the purposes of*

enhancement capital expenditure (“**Enhancement Capex Purpose**”) but only to the extent that such Financial Indebtedness is Permitted Enhancement Capex Financial Indebtedness and (3) then the Senior RAR is less than or equal to 0.74:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date (after taking into account the proposed incurrence of such further Financial Indebtedness)

- (ii) at the time of incurrence of such Financial Indebtedness, no Drawstop Event is continuing or will arise as a result of the incurrence of such Financial Indebtedness;
- (iii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility, the provider of which (or their trustee) is a party to, or has acceded to, the CTA and STID;
- (iv) as a result of the incurrence of the Financial Indebtedness:
 - (A) SWS and the Issuer will not be in breach of Paragraph 4 (DSR Liquidity Facility) of Part 2 (Financial Covenants) of Schedule 5 (Covenants) and Paragraph 38 (Control of Repayment Schedules) of Part 3 (General Covenants) of Schedule 5 (Covenants) to the CTA; and
 - (B) no Authorised Credit Provider will have substantially better or additional Entrenched Rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness of the same class; and
 - (C) the Hedging Policy shall continue to be complied with in all respects;
- (v) the Financial Indebtedness which is Class A Debt ranks (save for, if applicable, any Financial Guarantee) pari passu in all respects with all other Class A Debt and the Financial Indebtedness that is Class B Debt ranks (save for, if applicable, any Financial Guarantee) pari passu in all respects with all other Class B Debt;
- (vi) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR (adjusted on a proforma basis to take into account the proposed incurrence of such further Financial Indebtedness) must be less than or equal to 0.900:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date; and
- (vii) if such further Financial Indebtedness is incurred under a Finance Lease, the amount of that Financial Indebtedness, when aggregated with all other Financial Indebtedness under Finance Leases, shall not exceed an amount which is 15 per cent of RCV or its equivalent,

provided that:

- (A) SWS shall specify in each Compliance Certificate delivered between 1 January 2021 and 31 December 2025 the total amount of Financial

Indebtedness incurred pursuant to each of paragraph (g) and paragraph (j) of the definition of Permitted Financial Indebtedness; and

- (B) *this shall be without prejudice to the Deed Poll relating to the issuance of Class B Debt dated 19 November 2018 pursuant to which SWS and the Issuer undertook to the Security Trustee for the benefit of all Secured Creditors that, following the successful raising of funds required to prepay the then outstanding Class B Debt, neither SWS nor the Issuer would issue, borrow or raise any new or further Class B Debt.*

4.6.2 the addition of the following new definitions in Schedule 2 (*Common Definitions*) of the MDA as follows:

*“**Drawstop Event**” means the occurrence of:*

- (a) an Event of Default;
- (b) a Potential Event of Default; or
- (c) each Potential Trigger Event or Trigger Event, other than in respect of the following:
 - (I) A Trigger Event (or Potential Trigger Event) under paragraph 1(c) to (j) (Financial Ratios) of Part 1 (Trigger Events) of Schedule 6 (Trigger Events) to the CTA; or
 - (II) a Trigger Event (or Potential Trigger Event) under paragraph 2 (Credit Rating Downgrade) of Part 1 (Trigger Events) of Schedule 6 (Trigger Events) to the CTA (but only where the long-term shadow credit rating of any Class A Wrapped Debt and the long-term credit rating of any Class A Unwrapped Debt is BB (S&P), BB (Fitch) and Ba2 (Moody’s) or better;”

*“**Permitted Enhancement Capex Financial Indebtedness**” means Financial Indebtedness incurred by the Issuer or SWS for the purposes of making enhancement capital expenditure envisaged under the applicable determination for disbursement during AMP7 (as set out in the Final Determination), as adjusted to reflect any redetermination from the Competition and Markets Authority, interim determination, or other adjustment agreed to by Ofwat or any other relevant government body and subject to any applicable judicial challenge to SWS’s envisaged enhancement capex expenditure during the period.”*

*“**Relevant Trigger Event**” shall mean:*

- (i) *A Trigger Event under paragraph 1 (Financial Ratios) of Part 1 (Trigger Events) of Schedule 6 (Trigger Events) to the CTA; or*
- (ii) *a Trigger Event under paragraph 2 (Credit Rating Downgrade) of Part 1 (Trigger Events) of Schedule 6 (Trigger Events) to the CTA.”*

*“**Potential Relevant Trigger Event**” means, in the case of any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof, if not remedied or waived, become a Relevant Trigger Event).”*

4.7 The Proposer has agreed pursuant to the CTA that, where any Financial Indebtedness is incurred for the purposes of refinancing existing Financial Indebtedness, the net proceeds of such new Financial Indebtedness incurred for such refinancing purpose shall be held by the Account Bank in cash and/or Authorised Investments until such time as they are required in order to discharge any existing Financial Indebtedness which is being refinanced.

5 Amendment to paragraph 16(b) of Part 3 (General Covenants) of Schedule 5 (Covenants) of the CTA

5.1 Pursuant to paragraph 16(a) (*Loans and Credit*) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the CTA, no Obligor may be a creditor in respect of any Financial Indebtedness or issue any guarantee or indemnity in respect of the obligations of any other person except for certain credits, loans, indemnities or guarantees listed under paragraph 16(b) provided that no Default or Potential Trigger Event is continuing at the time any such credit or loan or guarantee is proposed to be made or issued.

5.2 A Potential Trigger Event is any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event. The occurrence of a Trigger Event which is continuing means that a Default is continuing. Therefore, whilst a Potential Relevant Trigger Event or a Relevant Trigger Event is continuing (each as defined in paragraph 4.6.2 above), no Obligor would be able to be a creditor or issue any guarantee or indemnity pursuant to paragraph 16(a) or (b) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the CTA.

5.3 Therefore, notwithstanding that a Potential Relevant Trigger Event or a Relevant Trigger Event may be continuing, the Proposer believes that it would be in the best interests of the Secured Creditors to allow the Obligor to be a creditor in respect of any Financial Indebtedness or issue any guarantee or indemnity provided under and in accordance with any Finance Document, including in relation to the incurrence of any Permitted Financial Indebtedness as proposed to be amended above in paragraph 4.

5.4 Furthermore, in order to ensure the financial resilience of the SWS Financing Group, the Proposer requests the Majority Creditors to consent to the amendment to the end of paragraph 16(b) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the CTA as follows:

“(b) Paragraph (a) does not apply to:

- (i) any credit or indemnity provided under, and in accordance with, any Finance Document;*
- (ii) any loan made under the Issuer/SWS Loan Agreements;*
- (iii) any loan provided to SWS which is subordinated to the Authorised Credit Facilities on terms acceptable to the Security Trustee;*
- (iv) any guarantee contained in the Finance Documents;*
- (v) the SWS/SWSG Loan;*
- (vi) single loans made by SWS to employees of less than £250,000 (indexed) or loans made by SWS to employees in aggregate less than £750,000 (indexed);*
- (vii) in the case of SWS, Permitted Volume Trading Arrangements;*
- (viii) any loan made as a Permitted Post Closing Event;*

- (ix) any other loans made by SWS not falling in Paragraphs (i) to (viii) in aggregate less than £500,000 (indexed);

provided that (other than in the case of (ii) and, except where a Default (other than a Relevant Trigger Event or Potential Relevant Trigger Event) is continuing, (vi) above):

- (A) Where such credit, indemnity, loan or guarantee supports the incurrence of Permitted Financial Indebtedness permitted solely by virtue of paragraph (j) of the definition of Permitted Financial Indebtedness, no Drawstop Event is continuing at the time any such credit or loan or guarantee is proposed to be made or issued¹; and
- (B) in each other case, no Default or Potential Trigger Event is continuing at the time any such credit or loan or guarantee is proposed to be made or issued.”

6 Amendment to the definition of Initial Date Representation

- 6.1 Pursuant to clause 4.2.2 (*Times for making representations*) of the CTA, each Initial Date Representation is deemed to be repeated by the relevant Obligor on (a) the date upon which any new Authorised Credit Facility is entered into, (b) the date upon which any new Bonds are issued under the Programme and (c) the date on which any Financial Guarantee is issued. One such Initial Date Representation in respect of the entering into of a new Authorised Credit Facility after the Initial Issue Date (under paragraph 5 (*No Default or Potential Trigger Event*) of Schedule 3 (*General Representations*) of the CTA) is that:

“No Default or Potential Trigger Event will result from the execution of, or the performance of any transaction contemplated by, any Transaction Document”.

- 6.2 A Potential Trigger Event is any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event. The occurrence of a Trigger Event which is continuing means that a Default is continuing. Therefore, whilst a Potential Relevant Trigger Event or a Relevant Trigger Event is continuing, the Proposer and the Issuer would not be able to repeat such representation.

- 6.3 In order for the SWS Financing Group to be able to incur further Financial Indebtedness whilst a Relevant Trigger Event or Potential Relevant Trigger Event is continuing, the representation referred to above cannot be repeated. Therefore, the Proposer requests the Majority Creditors to consent to the amendment of the definition of Initial Date Representation as follows:

*“**Initial Date Representation**” means (i) in respect of the issue of any Tranche of Bonds or any Financial Guarantee after the Initial Issue Date, each representation set out in Schedule 3 (*General Representations*) to the CTA and Schedule 4 (*SWS Representations*) to the CTA save for Paragraphs 5 (*No Default or Potential Trigger Event*) (but only to the extent this representation relates to a Relevant Trigger Event or Potential Relevant Trigger Event), 26(b) (*Financial Indebtedness*) and 28 (*Treasury Transactions*) of Schedule 3 to the CTA and Paragraph 3 (*Information Memorandum, financial projections and Investor Presentation*) of Schedule 4 to the CTA and (ii) in respect of the entering into of a new Authorised Credit Facility after the Initial Issue Date, each of those representations in Schedules 3 and 4 to the CTA other than Paragraphs 5 (*No Default or Potential Trigger Event*) (but only to the*

extent this representation relates to a Relevant Trigger Event or Potential Relevant Trigger Event), 30 (Bonds valid and binding) and 31 (Status of Bonds) of Schedule 3 provided that in respect of (i) and (ii) above, the representations contained in Paragraphs 6 (Validity and admissibility in evidence), 7 (Authorisations), 11 (No deduction or withholding), 21 (Full Disclosure), 23 (Choice of Law), 30 (Bonds valid and binding) and 31 (Status of Bonds) of Schedule 3 to the CTA shall be limited and refer only to the new Tranche of Bonds, the new Financial Guarantee or the new Authorised Credit Facility (as the case may be), and the representations contained in Paragraph 3 (Information Memorandum, financial projections and Investor Presentation) of Schedule 4 to the CTA shall be limited to the Information Memorandum and the investor presentation (if any, provided that such investor presentation was expressly authorised by SWS) prepared in respect of such Tranche of Bonds, such Financial Guarantee or such Authorised Credit Facility (as the case may be) and the representations contained in Paragraph 4 (Assumptions) of Schedule 4 to the CTA shall be limited to any Investors Report or Compliance Certificate provided by SWS with the Information Memorandum prepared in respect of such Tranche of Bonds, such Financial Guarantee or such Authorised Credit Facility (as the case may be)."

7 Amendment to Clause 2.1.7 of CP Agreement

7.1 Pursuant to clause 2.1.7 (*Conditions Precedent*) of the CP Agreement, the following condition precedent to the issue of Bonds under the Programme after the Initial Issue Date must be fulfilled to the satisfaction of each Interested Party (as defined therein), including the Security Trustee:

"no Default or Potential Trigger Event is subsisting".

7.2 A Potential Trigger Event is any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event. The occurrence of a Trigger Event which is continuing means that a Default is continuing. Therefore, whilst a Potential Trigger Event or a Trigger Event is continuing, the Issuer would not be able to access the bond markets from time to time in order to facilitate the incurrence of new Financial Indebtedness.

7.3 The Proposer requests the Majority Creditors to consent to the amendment of clause 2.1.7 (*Conditions Precedent*) of the CP Agreement as follows:

"no Drawstop Event is subsisting".

8 Majority Creditors consent and the STID Voting Date

8.1 The Proposer considers, and certifies to the Security Trustee that, in its opinion, the implementation of the proposed modifications in paragraphs 5 (*Amendment to paragraph 16(b) of Part 3 (General Covenants) of Schedule 5 (Covenants) to the CTA*), 6 (*Amendment to the definition of Initial Date Representation*) and 7 (*Amendment to Clause 2.1.7 of CP Agreement*) require the consent of the Majority Creditors only, pursuant to clause 9.2.1 of the STID (the "**Majority Creditor Consents**") and as such, the implementation of such proposed modifications does not require the consent of any Secured Creditor in addition to the consent of the Majority Creditors as contemplated by Clause 9.2.2 of the STID.

8.2 The Proposer considers, and certifies to the Security Trustee that, in its opinion, the implementation of the proposed modifications in paragraph 4 (*Amendment to the definition of Permitted Financial Indebtedness*) requires the consent of the Super-Majority Creditors

only, pursuant to clause 9.2.1 of the STID (the “**Super-Majority Creditor Consents**” and, together with the Majority Creditor Consents, the “**STID Proposal Consents**”) and as such, the implementation of such proposed modifications does not require the consent of any Secured Creditor in addition to the consent of the Super-Majority Creditors as contemplated by Clause 9.2.2 of the STID. The Proposer hereby agrees that (notwithstanding that certain matters set out herein only require the approval of the Majority Creditors), all amendments and consents requested in this STID Proposal shall only become effective with the consent of the Super-Majority Creditors.

- 8.3** The Proposer also considers, and certifies to the Security Trustee that, in its opinion, the implementation of the proposed modifications and waivers in paragraphs 4 (*Amendments to the definition of Permitted Financial Indebtedness*), 5 (*Amendment to paragraph 16(b) of Part 3 (General Covenants) of Schedule 5 (Covenants) to the CTA*), 6 (*Amendment to the definition of Initial Date Representation*) and 7 (*Amendment to Clause 2.1.7 of CP Agreement*) of this STID Proposal do not relate to or affect any Entrenched Rights or Reserved Matters (as described in clause 8 (*Modifications, Consents and Waivers*) of the STID).
- 8.4** Consents must be received by the Security Trustee no later than 12 February 2021 (the “**STID Voting Date**”).
- 8.5** Subject to Clause 9.5 (*Effective Time of Majority Creditor and Super-Majority Creditor Decisions on STID Proposal*) of the STID, upon the receipt of the STID Proposal Consents, and provided that the Security Trustee has not received an Entrenched Rights or Reserved Matters Notice prior to the STID Voting Date, the Master Definitions Agreement, the CTA and the CP Agreement will be amended as set out in paragraphs 4 (*Amendment to the definition of Permitted Financial Indebtedness*), 5 (*Amendment to paragraph 16(b) of Part 3 (General Covenants) of Schedule 5 (Covenants) to the CTA*), 6 (*Amendment to the definition of Initial Date Representation*) and 7 (*Amendment to Clause 2.1.7 of CP Agreement*) and by the execution of amendment agreements in the form attached in Schedule 1 of this STID Proposal.
- 8.6** Pursuant to Clause 9.7 of the STID, the decision by the Majority Creditors or Super Majority Creditors, as applicable, in relation to this STID Proposal will bind the Secured Creditors.
- 8.7** This STID Proposal shall constitute a certificate for the purposes of Clauses 8.16 and 15.4.3 of the STID.

Yours faithfully



Southern Water Services Limited (as Proposer)

We hereby confirm receipt of the STID Proposal:

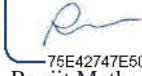
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Susan Rose

Associate Director

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Ranjit Mather

Associate Director

Deutsche Trustee Company Limited (as Security Trustee)

Date: 28 January 2021 | 5:42 GMT