SOUTHERN WATER SERVICES (FINANCE) LIMITED

(incorporated with limited liability in the Cayman Islands with registered number 112331)

(Legal Entity Identifier: 213800BTY35K1724Z452)

Multicurrency Programme for the Issuance of Guaranteed Bonds Financing Southern Water Services Limited

(incorporated in England and Wales with limited liability with registered number 2366670)

On 23 July 2003, Southern Water Services (Finance) Limited (the "**Issuer**"), entered into a multicurrency programme for the issuance of up to £6,000,000,000 Guaranteed Bonds (the "**Programme**"). The Programme was last updated on 28 February 2013. This Prospectus supersedes the prospectus relating to the Programme dated 28 February 2013. This Prospectus does not affect any bonds issued under the Programme before the date of this Prospectus.

The payment of all amounts owed in respect of the bonds issued under the Programme (the "**Bonds**") will be unconditionally and irrevocably guaranteed by Southern Water Services Limited ("**SWS**"), SWS Holdings Limited ("**SWSH**"), SWS Group Holdings Limited ("**SWSGH**") as described herein (each, a "**Guarantor**"). SWS, the Issuer, SWSH and SWSGH are together referred to herein as the "**Obligors**". Neither SWSH nor SWSGH has any significant assets other than the shares in its respective subsidiary.

Application has been made to the Financial Conduct Authority (the "**FCA**") under Part IV of the Financial Services and Markets Act 2000 as amended ("**FSMA**") for Bonds issued under the Programme during the period of twelve months after the date hereof, to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on either the London Stock Exchange's Regulated Market (the "**Market**") or on the London Stock Exchange's Professional Securities Market ("**PSM**"). References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to trading on the Market or the PSM and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**") of the European Parliament and of the Council on markets in financial instruments. The PSM is not a regulated market for the purposes of the MiFID II. The relevant Final Terms (as defined below) in respect of the issue of any Bonds will specify whether or not such Bonds will be listed on the Official List and admitted to trading on the Market or the PSM. In the case of Bonds issued under the Programme which are listed on the Official List and admitted to trading on the PSM, references to the Final Terms contained in this Prospectus shall be construed as references to the pricing supplement substantially in the form set forth in this Prospectus (the "**Pricing Supplement**").

References in this Prospectus to "PSM Bonds" are to Bonds for which no prospectus is required to be published under Regulation (EU) 2017/1129 (the "Prospectus Regulation"). For the purposes of any PSM Bonds issued pursuant to this Programme, this document does not constitute a base prospectus within the meaning of Article 8 of the Prospectus Regulation and will instead constitute Listing Particulars.

This Prospectus has been approved by the FCA, as competent authority under the Prospectus Regulation. The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the Guarantors or the quality of the Bonds that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds.

These Listing Particulars (defined herein) have been approved by the FCA in its capacity as competent authority under LR4.1.3 of the Listing Rules of the FCA ("**Listing Rules**") for listing particulars for the PSM and certain other securities. The FCA only approves these Listing Particulars as meeting the standards of completeness, comprehensibility and consistency as is required under the Listing Rules. Such approval should not be considered as an endorsement of either the Issuer or the Guarantors or the quality of the Bonds that are the subject of the Listing Particulars and investors should make their own assessment as to the suitability of investing in the Bonds.

The Bonds may be issued on a continuing basis, to one or more of the Dealers specified under Chapter 1 "*The Parties*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a "**Dealer**" and, together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer or in respect of which subscriptions will be procured by more than one Dealer, be to all Dealers agreeing to subscribe to such Bonds or to procure subscriptions for such Bonds, as the case may be.

The Class A Bonds issued on 23 July 2003 (the "**Initial Issue Date**"), 27 May 2005 and on 18 October 2006 are unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal pursuant to financial guarantees (and the endorsements thereto) originally issued by MBIA Assurance S.A., a *société anonyme* incorporated under the laws of the French Republic (registered with the

Paris Register of Trade and Companies under No. B377883293 (98 B 05130) ("**MBIA**"). The Sub-Class A10 Wrapped Bonds that were issued on 17 July 2007 are unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal pursuant to a financial guarantee (and the endorsements thereto) issued by Financial Security Assurance (U.K.) Limited ("**FSA**"). With effect from 28 December 2007, the business of MBIA was transferred to MBIA UK Insurance Limited ("**MBIA UK**"), (the "**Transfer**"); MBIA UK, therefore, assumed all rights and obligations of MBIA under the Transaction Documents as if it were the initial Financial Guarantor (as defined below) of the Class A Bonds issued on the Initial Issue Date, 27 May 2005 and 18 October 2006. On 31 December 2009, FSA changed its name to Assured Guaranty (Europe) Ltd. On 10 January 2017, Assured Guaranty Corp. acquired the entire issued share capital of MBIA UK, following which the registered name of MBIA UK was changed to Assured Guaranty (London) plc ("**AGLN**"). On 1 June 2017, Assured Guaranty (Europe) Limited was re-registered under the Companies Act 2006 as a public company under the name of Assured Guaranty (Europe) plc. On 7 November 2018, AGLN transferred its insurance portfolio to, and merged with and into Assured Guaranty (Europe) plc ("**Assured Guaranty**"). References to the "**Initial Financial Guarantor**" shall mean MBIA and Assured Guaranty (Europe) plc prior to the Transfer and Assured Guaranty after the Transfer.

On 19 November 2018, the Issuer entered into a deed poll to undertake to the Security Trustee (for the benefit of all of the Secured Creditors) that the Issuer will not issue any new Class B Bonds.

For the avoidance of doubt, the Issuer may not, as of the date of this Prospectus, issue Wrapped Bonds or new Class B Bonds pursuant to this Prospectus.

Interests in a Temporary Global Bond (as defined below) will be exchangeable for interests in a Permanent Global Bond or definitive securities in bearer form on or after the date 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership or to the effect that the holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act (as defined below) and as may be required by U.S. tax laws and regulations, as more fully described in Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 20 (*Forms of the Bonds*).

Please see Chapter 3 "*Risk Factors*" to read about certain factors you should consider before buying any Bonds.

Arranger

HSBC

Dealers

BNP PARIBAS **HSBC**

Lloyds Bank Corporate Markets **NatWest Markets**

Santander Corporate & Investment Banking

Prospectus dated 6 May 2020

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Under the Programme, the Issuer may, subject to all applicable legal and regulatory requirements, from time to time, issue Bonds in bearer and/or registered form (respectively, "**Bearer Bonds**" and "**Registered Bonds**"). Copies of the Final Terms (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the "**Bond Trustee**"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent (each as defined below), provided that, in the case of Bonds which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders.

For the avoidance of doubt, the Issuer may not, as of the date of this Prospectus, issue Wrapped Bonds pursuant to this Prospectus.

The maximum aggregate nominal amount of all Bonds from time to time outstanding under the Programme will not exceed £6,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Details of the aggregate principal amount, interest (if any) payable, the Issue Price (as defined below) and any other conditions not contained herein, which are applicable to each Tranche of each Sub-Class of each Class of each Series (all as defined below) will be set forth in a set of final terms (the "**Final Terms**") which, in the case of Bonds to be admitted to the Official List and to trading on the Market or the PSM, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche.

Bonds issued under the Programme will be issued in series (each, a "**Series**") and in one or more of four classes (each, a "**Class**"). The guaranteed unwrapped Bonds will be designated as either "**Class A Unwrapped Bonds**" or "**Class B Unwrapped Bonds**". Each Class may comprise one or more sub-classes (each, a "**Sub-Class**") with each Sub-Class pertaining to, among other things, the currency, interest rate and Maturity Date (as defined below) of the relevant Sub-Class. Each Sub-Class may be zero coupon, fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, Euro or U.S. dollars (or in other currencies subject to compliance with applicable laws).

Each Class of Bonds is expected on issue to have the following credit ratings:

Class	**Standard & Poor's**	**Moody's**	**Fitch**
Class A Unwrapped Bonds	BBB+ (negative outlook)	Baa3	BBB+ (negative outlook)

See Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Events, paragraph (ii) (Credit Rating Downgrade)*" and Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Event Consequences*" for a description of the possible consequences of rating action taken by the Ratings Agencies, including as a result of SWS's failure to deliver its commitments under the Final Determination (as defined below) or for any other reason.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). The credit ratings included or referred to in this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by S&P Global Ratings Europe Limited ("**Standard & Poor's**"), Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**", and, together with Standard & Poor's and Moody's, the "**Rating Agencies**"). Each of Standard & Poor's, Moody's and Fitch is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

Whether a rating in relation to any Tranche of Bonds will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

Each Sub-Class of Bearer Bonds will be represented on issue either by a temporary global bond in bearer form, without interest coupons (each a "**Temporary Global Bond**") or a permanent global bond in bearer form, without interest coupons (each a "**Permanent Global Bond**" and, together with each Temporary Global Bond, the "**Global Bonds**"), in each case as specified in the relevant Final Terms. Following any substitution of the Issuer with an entity which is capable of issuing eligible collateral for Eurosystem monetary policy (an "**Eligible Issuer**"), if the Global Bonds are stated in the applicable Final Terms to be issued in new global note ("**NGN**") form, the Global Bonds are intended to be eligible collateral for Eurosystem monetary policy. Global Bonds issued in NGN form will be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Registered Bonds will be represented by registered certificates (each a "**Certificate**") and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in respect of Registered Bonds*), each Certificate shall represent the entire holding of the Registered Bonds by the same Bondholder. Registered Bonds issued in global form will be represented by registered global certificates (each a "**Global Bond Certificate**"). If, following any substitution of the Issuer with an Eligible Issuer, a Global Bond Certificate is held under the new safekeeping structure (the "**NSS**") the Global Bond Certificate will be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system. Global Bonds which are not issued in NGN form ("**CGNs**") and Global Bond Certificates which are not held under the NSS will be deposited on or prior to the original issue date of the Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and/or any other relevant clearing system. This Prospectus does not affect any Bonds issued before the date of this Prospectus.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

If any withholding or deduction for or on account of tax is applicable to the Bonds, payments of interest on, principal of and premium (if any) on the Bonds will be made subject to such withholding or deduction, without the Issuer being obliged to pay any additional amounts as a consequence.

Amounts payable under the Bonds may be calculated by reference to: (i) the London Inter-Bank Offered Rate ("**LIBOR**"), which is provided by ICE Benchmark Administration Limited ("**IBA**"); (ii) the Euro Interbank Offered Rate ("**EURIBOR**"), which is provided by the European Money Markets Institute (the "**EMMI**"); (iii) the United Kingdom retail price index ("**RPI**"), which is provided by the Office for National Statistics; (iv) the United Kingdom consumer price index ("**CPI**"), which is provided by the Office for National Statistics; (v) the harmonised indices of consumer prices ("**CPIH**") which is provided by the Office for National Statistics; and (vi) the daily Sterling Overnight Index Average ("**SONIA**"), which is provided by the Bank of England. As at the date of this Prospectus, the IBA and the EMMI appear, and the Office for National Statistics and the Bank of England do not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**BMR**").

As far as the Issuer is aware, RPI, CPI, CPIH and SONIA do not fall within the scope of the BMR by virtue of Article 2 of that regulation. In addition, the transitional provisions in Article 51 of the BMR apply, such that the EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms, investigations and licensing issues in making any investment decisions with respect to Bonds linked to a "benchmark".

In the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require (a) the publication of a prospectus under Regulation (EU) 2017/1129 of the European Parliament and of the Council, as amended (the Prospectus Regulation) or (b) the publication of listing particulars under the FCA's listing rules (the "**Listing Rules**"), the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds). Bonds may be issued in such denominations and higher integral multiples of a smaller amount specified in the relevant Final Terms.

The Obligors may agree with any Dealer and the Bond Trustee that Bonds may be issued in a form not contemplated by the Conditions (as defined below) herein, in which event (in the case of Bonds admitted to the Official List only) a supplementary prospectus or further prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

IMPORTANT NOTICE

This prospectus (the "**Prospectus**") supersedes all previous prospectuses, listing particulars and information memoranda and any supplements thereto in their entirety and comprises a prospectus for the purposes of the Prospectus Regulation.

This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Bonds which are to be admitted to trading on a regulated market in the European Economic Area (the "**EEA**") or in the United Kingdom (the "**UK**") and/or offered to the public in the EEA or UK other than in circumstances where any exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

This Prospectus, together with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"), comprise (i) a base prospectus for the purposes of Article 8 of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Guarantors and the Bonds which, according to the particular nature of the Issuer, the Guarantors and the Bonds to be issued by the Issuer, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and the prospects of the Issuer, the Guarantors and the rights attaching to such Bonds and the reasons for the issuance and its impact on the Issuer and the Guarantors and (ii) listing particulars for the purposes of LR 2.2.11 of the Listing Rules of the FCA with regard to the Issuer and the Guarantors (the "**Listing Particulars**").

For avoidance of doubt, the pro forma Pricing Supplement set out under "*Pro Forma Pricing Supplement*" forms part of the Listing Particulars and does not form part of this Prospectus.

Each of the Issuer and the Guarantors accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Bonds (as defined below) issued under the Programme. To the best of the knowledge of the Issuer and each of the Guarantors, the information contained in this Prospectus is in accordance with the facts, and the Prospectus makes no omission likely to affect the import of such information.

The information relating to the Hedge Counterparties contained in Chapter 10 "*Description of Hedge Counterparties*" has been accurately reproduced and, as far as the Issuer and each of the Guarantors are aware and are able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The references relating to:

(i) Ofwat's final decision to impose a financial penalty on Southern Water Services Limited on page 70; and

(ii) the DWI 2018 annual report on page 118,[1]

have been accurately reproduced and, as far as the Issuer and each of the Guarantors are aware and are able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is being distributed only to, and is directed only at, persons who: (i) are outside the United Kingdom; or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). This Prospectus, or any of its contents, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to, and any

[1] http://www.dwi.gov.uk/about/annual-report/2018/CIR-2018-England.pdf

invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Copies of each set of Final Terms (in the case of Bonds to be admitted to the Official List) will be available from Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX and from the specified office set out below of each of the Paying Agents or the Registrar and Transfer Agents (as applicable) for a period of 12 months from the date of its publication.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, any member of the SWS Financing Group (as defined below) or of the Full Greensands Group (as defined below) or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, any member of the SWS Financing Group or of the Full Greensands Group, the Arranger, the Dealers, the Bond Trustee or the Security Trustee. Neither the delivery of this Prospectus nor any offering or sale of Bonds made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or any member of the SWS Financing Group since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Arranger or any Dealer to subscribe for, or purchase, any of the Bonds.

None of the Arranger, the Dealers, the Financial Guarantors, the Bond Trustee or the Security Trustee nor any of the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager or the members of the Full Greensands Group (other than the Obligors) (each as defined below and, together, the "**Other Parties**") has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, any Dealer, Financial Guarantor, the Bond Trustee or the Security Trustee or Other Party as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds or their distribution. The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the other Obligors. Each person receiving this Prospectus acknowledges that such person has not relied on the Arranger, any Dealer, Financial Guarantor, the Bond Trustee or the Security Trustee or Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

None of the Issuer, the Obligors, any member of the SWS Financing Group, the Arranger, the Dealers, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties accepts responsibility to investors for the regulatory treatment of its investment in the Bonds in any jurisdiction or by any regulatory authority (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a "securitisation" for the purpose of: (i) Regulation (EU) 2017/2042 of the European Parliament and of the Council of 12 December 2017 (the "**Securitisation Regulation**") together with the final regulatory technical standards and implementing technical standards to the Securitisation Regulation published by the European Banking Authority or the European Supervisory Authority (European Securities and Markets Authority) pursuant to the Securitisation Regulation and any other applicable guidance, technical standards or related documents published by the European Banking Authority or the European Supervisory Authority (European Securities and Markets Authority) (including any successor or replacement agency or authority) and any delegated regulations of the European Commission (and, in each case, including any amendment or successor thereto); and (ii) Article 17 of Directive 2011/61/EU on Alternative Investment Fund Managers (the "**AIFMD**"), as implemented by Section 5 of the European Union Commission Delegated Regulation (EU) No. 231/2013 of 19 December 2012, supplementing the AIFMD, and as amended by the Securitisation Regulation, including any guidance published in relation thereto and any implementing laws or regulations in force in any Member State of the European Union.

If the regulatory treatment of an investment in the Bonds is relevant to an investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Obligors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct or that there has been no adverse change in the financial position of the Issuer or the other Obligors as of any time subsequent to the date indicated in the document containing the same. None of the Arranger, the Dealers, the Financial Guarantors, the Bond Trustee, the Security Trustee or the Other Parties expressly undertakes to review the financial condition or affairs of any of the Obligors during the life of the Programme or to advise any investor in the Bonds of any information coming to their attention. Investors should review, among other things, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Bonds.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any Financial Guarantor, any member of the SWS Financing Group, any member of the Full Greensands Group, the Arranger, any Dealer, the Bond Trustee, the Security Trustee or any of the Other Parties that any recipient of this Prospectus should purchase any of the Bonds.

Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer and the other Obligors and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Bonds should consult independent professional advisers. Any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.

THE BONDS AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE BONDS MAY INCLUDE BEARER BONDS THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS.

SUBJECT TO CERTAIN EXCEPTIONS, THE BONDS MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER BONDS, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")).

THE BONDS ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF BONDS AND DISTRIBUTION OF THIS PROSPECTUS SEE CHAPTER 12 "*SUBSCRIPTION AND SALE*".

THE BONDS AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF BONDS OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA ("**EEA**") OR IN THE UNITED KINGDOM (THE "**UK**"). FOR THESE

PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "**MIFID II**"); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE "**INSURANCE DISTRIBUTION DIRECTIVE**"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION (EU) 2017/1129 (AS AMENDED OR SUPERSEDED, THE "**PROSPECTUS REGULATION**"). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE "**PRIIPS REGULATION**") FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA OR IN THE UK HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA OR IN THE UK MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

MIFID II PRODUCT GOVERNANCE/TARGET MARKETS – THE FINAL TERMS IN RESPECT OF ANY BONDS MAY INCLUDE A LEGEND ENTITLED "MIFID II PRODUCT GOVERNANCE" WHICH WILL OUTLINE THE TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS AND WHICH CHANNELS FOR DISTRIBUTION OF THE BONDS ARE APPROPRIATE. ANY PERSON SUBSEQUENTLY OFFERING, SELLING OR RECOMMENDING THE BONDS (A "**DISTRIBUTOR**") SHOULD TAKE INTO CONSIDERATION THE TARGET MARKET ASSESSMENT; HOWEVER, A DISTRIBUTOR SUBJECT TO MIFID II IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS (BY EITHER ADOPTING OR REFINING THE TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.

A DETERMINATION WILL BE MADE IN RELATION TO EACH ISSUE ABOUT WHETHER, FOR THE PURPOSE OF THE PRODUCT GOVERNANCE RULES UNDER EU DELEGATED DIRECTIVE 2017/593 (THE "**MIFID PRODUCT GOVERNANCE RULES**"), ANY DEALER SUBSCRIBING FOR ANY BONDS IS A MANUFACTURER IN RESPECT OF SUCH BONDS, BUT OTHERWISE NEITHER THE ARRANGER NOR THE DEALERS NOR ANY OF THEIR RESPECTIVE AFFILIATES WILL BE A MANUFACTURER FOR THE PURPOSE OF THE MIFID PRODUCT GOVERNANCE RULES.

SINGAPORE SFA PRODUCT CLASSIFICATION – IN CONNECTION WITH SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (THE "**SFA**") AND THE SECURITIES AND FUTURES (CAPITAL MARKETS PRODUCTS) REGULATIONS 2018 OF SINGAPORE (THE "**CMP REGULATIONS 2018**"), UNLESS OTHERWISE SPECIFIED BEFORE AN OFFER OF BONDS, THE ISSUER HAS DETERMINED, AND HEREBY NOTIFIES ALL RELEVANT PERSONS (AS DEFINED IN SECTION 309A(1) OF THE SFA), THAT THE BONDS ARE CAPITAL MARKETS PRODUCTS OTHER THAN PRESCRIBED CAPITAL MARKETS PRODUCTS (AS DEFINED IN THE CMP REGULATIONS 2018) AND ARE SPECIFIED INVESTMENT PRODUCTS (AS DEFINED IN MAS NOTICE SFA 04-N12: NOTICE ON THE SALE OF INVESTMENT PRODUCTS AND MAS NOTICE FAA-N16: NOTICE ON RECOMMENDATIONS ON INVESTMENT PRODUCTS).

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. None of the Obligors, the Arranger, the Dealers, the Bond Trustee, the Security Trustee or the Other Parties represents that this Prospectus may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Obligors, the Arranger, the Dealers, the Bond Trustee, the Security Trustee or the Other Parties which would permit a public offering of any Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States, the EEA and the United Kingdom. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see Chapter 12 "*Subscription and Sale*". This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

All references herein to "**pounds**", "**sterling**" or "**£**" are to the lawful currency of the United Kingdom, all references to "**$**", "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to the lawful currency of the United States of America, and references to "**€**", "**Euro**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

Any reference in this Prospectus to any legislation (whether primary legislation or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended, superseded or re-enacted.

In connection with the issue of any Tranche (as defined in Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*) of Bonds, one or more Dealer or Dealers (if any) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) may over-allot such Bonds or effect transactions with a view to supporting the market price of the Bonds of the Series of which such Tranche forms part, at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds and 60 days after the allotment of the relevant Tranche of Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited non-consolidated financial statements of each of the Obligors for the financial years ended 31 March 2018 and 2019 and the unaudited interim financial statements of SWS for the six months ended 30 September 2019, together, in each case, with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Conduct Authority or filed with it (see Chapter 13 "*General Information – Documents Available*" for a description of the financial statements currently available for each of the Obligors) save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus.

The following information shall be deemed to be incorporated in, and form part of, this Prospectus:

Annual Reports

(a) annual report of the Issuer for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2019) (accessible at https://www.southernwater.co.uk/media/2666/inv-swsf-31-mar-19.pdf);

(b) annual report of the Issuer for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2018) (accessible at https://www.southernwater.co.uk/media/2095/inv-annual-report-17-18.pdf);

(c) annual report of Southern Water Services Limited for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2019) (accessible at https://www.southernwater.co.uk/media/2634/annualreport_2018_19.pdf);

(d) interim report of Southern Water Services Limited for the six months ended 30 September 2019 (accessible at https://www.southernwater.co.uk/media/3087/interim-report-2019.pdf);

(e) annual report of Southern Water Services Limited for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2018) (accessible at https://annualreport.southernwater.co.uk/media/1792/annualreport_2017_18.pdf);

(f) annual report of Southern Water Services Holdings Limited for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2019) (accessible at https://www.southernwater.co.uk/media/2956/inv-swsholdings-ar-19.pdf);

(g) annual report of Southern Water Services Holdings Limited for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2018) (accessible at https://www.southernwater.co.uk/media/2958/inv-swsholdings-ar-18.pdf);

(h) annual report of SWS Group Holdings Limited for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2019) (accessible at https://www.southernwater.co.uk/media/2955/inv-swsgh-ar-19.pdf);

(i) annual report of SWS Group Holdings Limited for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of the Issuer for the financial year ended 31 March 2018) (accessible at https://www.southernwater.co.uk/media/2957/inv-swsgh-ar-18.pdf);

Terms and Conditions

(a) the Terms and Conditions of the Bonds as contained at pages 125 to 156 (inclusive) of the offering circular dated 17 July 2003 https://www.southernwater.co.uk/media/3341/prospectus-2003.pdf;

(b) the Terms and Conditions of the Bonds as contained at pages 134 to 170 (inclusive) of the offering circular dated 24 May 2005 https://www.southernwater.co.uk/media/3355/sws-f-l-2005-prospectus.pdf;

(c) the Terms and Conditions of the Bonds as contained at pages 174 to 225 (inclusive) of the prospectus relating to the Programme dated 13 October 2006 https://www.southernwater.co.uk/media/2969/inv-prospectus-06.pdf;

(d) the Terms and Conditions of the Bonds as contained at pages 173 to 211 (inclusive) of the prospectus relating to the Programme dated 27 February 2009 https://www.southernwater.co.uk/media/2968/inv-prospectus-09.pdf;

(e) the Terms and Conditions of the Bonds as contained at pages 181 to 219 (inclusive) of the prospectus relating to the Programme dated 12 April 2011 https://www.southernwater.co.uk/media/2094/inv-prospectus-11.pdf; and

(f) the Terms and Conditions of the Bonds as contained at pages 178 to 214 (inclusive) of the prospectus relating to the Programme dated 28 February 2013 https://www.southernwater.co.uk/media/2087/inv-prospectus-13.pdf,

in each case, in connection with the Programme.

Each Obligor will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Obligors, at their respective offices set out at the end of this Prospectus.

An electronic copy of the Prospectus, copies of the documents deemed to be incorporated by reference in this Prospectus, each supplementary prospectus and the final terms related to this Prospectus may be viewed on:

(a) https://www.southernwater.co.uk/our-story/investors; and/or

(b) the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

In reference to the contents of this Prospectus:

(i) any information or documents themselves incorporated by reference in the documents incorporated by reference;

(ii) the hyperlinks included in this Prospectus or included in any documents incorporated by reference into the Prospectus (other than those listed above, linking to copies of documents incorporated by reference herein); and

(iii) the websites and their content other than copies of those documents deemed to be incorporated by reference into this Prospectus,

are not incorporated into, and do not form part of, this Prospectus and have not been scrutinised or approved by the FCA.

Each of the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in Chapter 12 "*Subscription and Sale*") to comply with Section 81 of the FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Prospectus inaccurate or misleading, a new prospectus will be prepared in the same manner as this base prospectus.

SUPPLEMENTARY PROSPECTUS

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Market, that, if there shall occur any significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the FCA such number of copies of such supplement hereto or replacement prospectus as may be required by the FCA and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents (as defined herein).

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as so modified or amended, inaccurate or misleading, a new prospectus will be prepared.

If at any time any Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87(G) of the Financial Services and Markets Act 2000 ("**FSMA**"), the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the FCA and Section 87(G) of the FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

SUPPLEMENTARY LISTING PARTICULARS

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the PSM, that, if there shall occur a significant change affecting any matter contained in this Prospectus whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the FCA such number of copies of such supplement hereto or replacement prospectus as may be required by the FCA and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents (as defined herein).

If at any time any Issuer shall be required to prepare supplementary listing particulars pursuant to Section 81 of the FSMA, the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the PSM, shall constitute supplementary listing particulars as required by the FCA and Section 81 of the FSMA.

FINAL TERMS AND PRICING SUPPLEMENT

In the following paragraphs, the expression "**necessary information**" means, in relation to any Tranche of Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Bonds. In relation to the different types of Bonds which may be issued under the Programme the Issuer has endeavoured to include in this Prospectus all of the necessary information except for information relating to the Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained in the relevant Final Terms or Pricing Supplement (as applicable). Such information will be contained in the relevant Final Terms or Pricing Supplement (as applicable) unless any of such information constitutes a significant new factor relating to the information contained in this Prospectus, in which case, such information will be contained in a supplement to this Prospectus.

For a Tranche of Bonds which is the subject of the relevant Final Terms or Pricing Supplement (as applicable), those Final Terms or that Pricing Supplement (as applicable) must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Tranche of Bonds, which is the subject of the relevant Final Terms or Pricing Supplement (as applicable), are the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms or Pricing Supplement (as applicable).

CHAPTER 1
THE PARTIES

The Issuer	Southern Water Services (Finance) Limited, a company incorporated in the Cayman Islands on 17 August 2001 with limited liability with registered number 112331, is the funding vehicle for raising funds to support the long-term debt financing requirements of SWS and whose object and purpose is primarily the issue of securities. The Issuer is a 100 per cent. subsidiary of SWS (see Chapter 4 "*Financing Structure*" under "*Substitution of the Issuer*" for information on the potential replacement of the Issuer with a UK incorporated entity).
Legal Entity Identifier of the Issuer	213800BTY35K1724Z452
SWS	Southern Water Services Limited, a company incorporated in England and Wales with limited liability (registered number 2366670) on 1 April 1989, which holds an Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under the WIA for the areas described in the Instrument of Appointment. SWSH owns 100 per cent. of the issued ordinary share capital in SWS.
Legal Entity Identifier of SWS	54930007FJVKQFI3NF97
SWSH	SWS Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 04324499). SWSH is a 100 per cent. subsidiary of SWSGH.
SWSGH	SWS Group Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 04324498). SWSGH is a 100 per cent. subsidiary of Southern Water Services Group Limited.
Guarantors	Pursuant to the terms of the Security Agreement, SWSH and SWSGH each guarantee the obligations of each other and of SWS and the Issuer under each Finance Document in favour of the Security Trustee. In addition, SWS and the Issuer each guarantee the obligations of the other (but not those of SWSH and SWSGH) under each Finance Document in favour of the Security Trustee. SWSH, SWSGH, SWS and the Issuer are collectively referred to herein as the "**Guarantors**".
SWS Financing Group	The SWS Financing Group comprises SWSGH, SWSH, SWS, the Issuer and the Pension Companies (as defined below).
SWSG	Southern Water Services Group Limited, a company incorporated in England and Wales with limited liability (registered number 04374956), whose registered office is at Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. Southern Water Services Group Limited is a 100 per cent. subsidiary of SWI.
SWI	Southern Water Investments Limited, a company incorporated in England and Wales (registered number 04650294), whose registered office is at Southern House, Yeoman Road,

	Worthing, West Sussex BN13 3NX. SWI owns the Class A2 Preference Shares. SWI is a 100 per cent. subsidiary of SWC.
SWC	Southern Water Capital Limited, a company incorporated in England and Wales (registered number 04608528) whose registered office is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWC owns the Class A1 Preference Shares and the Class B Preference Shares.
Group	SWI and its Subsidiaries from time to time.
Arranger	HSBC Bank plc is the Arranger of the Programme.
Dealers	Banco Santander S.A., BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc and NatWest Markets Plc will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, the "**Dealers**") either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.
Financial Guarantors	Each of: (i) MBIA UK Insurance Limited ("**MBIA UK**") as initial financial guarantor under the terms of a financial guarantee which it has issued in respect of Sub-Class A9 Wrapped Bonds issued on 18 October 2006 (the "**MBIA UK Initial Financial Guarantee**"), and in respect of Class A Wrapped Bonds issued on 23 July 2003 (the "**Initial Issue Date**") and on 27 May 2005; and (ii) Assured Guaranty (Europe) Ltd. (formerly known as Financial Security Assurance (U.K.) Limited) (as initial financial guarantor) under the terms of a financial guarantee (together with the MBIA UK Initial Financial Guarantee, the "**Initial Financial Guarantees**") which it has issued in respect of Sub-Class A10 Wrapped Bonds issued on 17 July 2007. With effect from 28 December 2007, the business of MBIA was transferred to MBIA UK (the "**Transfer**"). On 31 December 2009, Financial Security Assurance (U.K.) Limited changed its name to Assured Guaranty (Europe) Ltd. On 10 January 2017, Assured Guaranty Corp. acquired the entire issued share capital of MBIA UK, following which the registered name of MBIA UK was changed to Assured Guaranty (London) plc ("**AGLN**"). On 1 June 2017, Assured Guaranty (Europe) Ltd. Was re-registered as a public company under the name of Assured Guaranty (Europe) plc. On 7 November 2018, AGLN transferred its insurance portfolio to, and merged with and into Assured Guaranty (Europe) plc ("**Assured Guaranty**"). References to the "**Initial Financial Guarantor**" shall mean MBIA and Assured Guaranty (Europe) plc prior to the Transfer, and Assured Guaranty after the Transfer. **For the avoidance of doubt, the Issuer shall not issue any Wrapped Bonds pursuant to this Prospectus.**
Hedge Counterparties	Each of: (i) Alum Bay Designated Activity Company; (ii) Banco Santander, S.A., London Branch; (iii) Bank of America, N.A.; (iv) BNP Paribas; (v) Deutsche Bank AG, London Branch; (vi) HSBC Bank plc; (vii) ING Bank N.V.; (viii) JPMorgan Chase Bank, National Association; (ix) Lloyds Bank Corporate Markets plc; (x) Lunar Luxembourg S.A.; (xi) Bank

	of America Merrill Lynch International Designated Activity Company; (xii) Morgan Stanley & Co. International plc; (xiii) National Australia Bank Limited; (xvi) NatWest Markets Plc; (xvii) SMBC Nikko Capital Markets Limited; and (xviii) UBS AG (together, the "**Existing Hedge Counterparties**"), and, together with any counterparties to future Hedging Agreements, the "**Hedge Counterparties**"). The Existing Hedge Counterparties are under no obligation to enter into any further Treasury Transactions.
Bond Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the Bond Trust Deed) acts as trustee (the "**Bond Trustee**") for and on behalf of the holders of each Class of Bonds of each Series (each, a "**Bondholder**").
Security Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the STID) acts as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the "**Security Trustee**") and holds, and will be entitled to enforce, the Security (as defined below) subject to the terms of the STID (as defined below).
Secured Creditors	The Secured Creditors comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor.
DSR Liquidity Facility Providers	BNP Paribas, London Branch, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds Bank Plc, National Australia Bank Limited, Santander UK Plc and Sumitomo Mitsui Banking Corporation Europe Limited (the "**Existing DSR Liquidity Facility Providers**") provide the Issuer with a 364-day revolving credit facility (as may be renewed from time to time) for interest requirements on the Class A Debt and, within certain limits, for interest requirements on the Class B Debt. The scheduled renewal date of the DSR Liquidity Facility is currently 17 March 2020.
O&M Reserve Facility Provider	A provider of a liquidity facility pursuant to an O&M Reserve Facility Agreement to fund SWS's operating and maintenance expenditure, which, among others, the Issuer and such O&M Reserve Facility Provider may enter into from time to time.
Authorised Credit Providers	BNP Paribas, London Branch, HSBC Bank plc, Lloyds Bank Plc, Santander UK Plc, Sumitomo Mitsui Banking Corporation, London Branch and National Westminster Bank Plc (the "**Existing RCF Providers**") provide the Existing RCF to SWS. Banco Santander S.A., London Branch, National Westminster Bank Plc and Lloyds Bank plc (the "**2019 Bridge Facility Providers**") provide the 2019 Bridge Facility to SWS.
Paying Agents	Deutsche Bank AG, London Branch acts and will act as principal paying agent (the "**Principal Paying Agent**"), and, together with any other paying agents appointed by the Issuer, the "**Paying Agents**") to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds.
Agent Bank	Deutsche Bank AG, London Branch acts as agent bank (the "**Agent Bank**") under the Agency Agreement.

Account Bank	HSBC Bank plc, acting through its office at Level 2, 8 Canada Square, E14 5HQ, United Kingdom, or any person for the time being acting as Account Bank (pursuant to the Account Bank Agreement). HSBC Bank plc is a company incorporated in England and Wales with registered number 00014259 and has its registered office at Level 2, 8 Canada Square, E14 5HQ, United Kingdom.
Cash Manager	SWS acts, or during a Standstill Period HSBC Bank plc (the "**Standstill Cash Manager**") will act, pursuant to the terms of the cash management provisions of the CTA as cash manager in respect of moneys credited from time to time to the Accounts (as defined below).
Registrar and Transfer Agent	Deutsche Bank AG, London Branch will act as transfer agent (the "**Transfer Agent**") and will provide certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Luxembourg S.A. will act as registrar (the "**Registrar**") and will provide certain registrar services to the Issuer in respect of the Registered Bonds.

CHAPTER 2
OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms. Words and expressions not defined in this overview shall have the same meanings as defined in Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*)".

The Issuer shall not issue any Wrapped Bonds pursuant to this Prospectus. In addition, on 19 November 2018, the Issuer entered into a deed poll to undertake to the Security Trustee (for the benefit of all the Secured Creditors) that the Issuer will not issue any new Class B Bonds. Please note that any references to Wrapped Bonds or Class B Bonds in this overview are for informational purposes only.

Substitution of the Issuer with the UK Issuer:	Upon the delivery of a Deed of Substitution Notice (as defined below) to the Bond Trustee, the Issuer shall be immediately, automatically and irrevocably released and relieved of all of its obligations under the Bonds of all Series issued on or after 6 May 2020 (the "**Substituted Bonds**"), the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds (but without prejudice to any obligations which may have accrued prior to that time) and it shall be immediately, automatically and irrevocably succeeded by the UK Issuer. As further described in Condition 3(d), a Deed of Substitution Notice will be a written notice signed by two Directors of the Issuer or two Directors of a public limited company incorporated in England and Wales as a subsidiary of SWS (the "**UK Issuer**" and, upon delivery to the Bond Trustee of a Deed of Release Notice, the "Issuer" in respect of the Substituted Bonds) and such notice shall certify to the Bond Trustee that: (i) a Substitution Event (as defined below) has occurred; (ii) the UK Issuer has obtained all necessary governmental and regulatory approvals and consents necessary for its assumption of liability in place of the Issuer and its performance of the Issuer's obligations under the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds; (iii) such approvals and consents are at the time of substitution in full force and effect; (iv) at least two of the Rating Agencies have confirmed in writing that the substitution of the UK Issuer will not result in a downgrading of the then current credit rating of such Rating Agencies applicable to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds or the current shadow credit rating of the Wrapped Bonds; and (v) the UK Issuer is a single purpose company similar to, and with like constitution as, and having substantially the same restrictions and prohibitions on its activities and operations as the Issuer and satisfies the SPV Criteria.

	A Substitution Event shall be deemed to occur upon: (x) the substitution of the UK Issuer in place of the Issuer as the issuer, borrower and/or principal debtor in respect of the Class A Bonds (other than the Substituted Bonds), PP Finance Documents and/or DSRLF Finance Documents actually occurring pursuant to a Substitution Proposal and (y) the assignment by the Issuer of the IBLAs to the UK Issuer actually occurring. Any capitalised term used but not defined in the foregoing paragraphs of this section shall have the meaning given to that term in the Master Definitions Agreement. There is no assurance that a Substitution Event will occur, and accordingly there is no assurance that the Issuer will be substituted in place of the UK Issuer.
Description	Guaranteed Bond Programme.
Programme Size	Up to £6,000,000,000 (or its equivalent in other currencies) aggregate nominal amount of Bonds outstanding at any time.
Issuance in Classes	Bonds issued under the Programme have been and will be issued in Series. For the avoidance of doubt, the Issuer shall not issue any Wrapped Bonds pursuant to this Prospectus. The Unwrapped Bonds are and will be designated as one of Class A Unwrapped Bonds or Class B Unwrapped Bonds. Each Class comprises or (in the case of Unwrapped Bonds only) will comprise one or more Sub-Classes of Bonds and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class. The specific terms of each Tranche of Bonds are and will be set out in the applicable Final Terms.
Issue Dates	23 July 2003 (the "**Initial Issue Date**"), 27 May 2005, 18 October 2006, 17 July 2007, 5 March 2009, 18 March 2013 and thereafter the date of issue of a Tranche of Bonds as specified in the relevant Final Terms (each, an "**Issue Date**").
Certain Restrictions	Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time, including the restrictions applicable at the date of this Prospectus. See Chapter 12 "*Subscription and Sale*". **Bonds with a maturity of less than one year** Bonds having a maturity of less than one year from the date of issue will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 12 "*Subscription and Sale*".

Distribution	Bonds have been and may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis.
Initial Delivery of the Bonds	On or prior to the original issue date of each Tranche, if the relevant Global Bond is a NGN or, following the substitution of the Issuer with an Eligible Issuer, the relevant Global Bond Certificate is held under the NSS, the Global Bond or Global Bond Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or prior to the original issue date of each Tranche, if the relevant Global Bond is a CGN or the relevant Global Bond Certificate is not held under the NSS, the Global Bond representing Bearer Bonds or the Global Certiificate representing Registered Bonds may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Bonds or Global Bond Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer. Registered Bonds that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies	Euro, sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Final Terms may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (*European Economic and Monetary Union*).
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as defined in the Conditions).
Issue Price	Bonds have been and may be issued on a fully paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
Interest	Bonds are and will, unless otherwise specified in the relevant Final Terms, be interest-bearing and interest is or will be calculated (unless otherwise specified in the relevant Final Terms) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest accrues or will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and is or will be payable in arrear, as specified in the relevant Final Terms. Interest is or will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms.

Form of Bonds	The Series 1 Bonds, Series 2 Bonds, Series 3 Bonds, Series 4 Bonds and Series 5 Bonds have been issued under the Programme in bearer form. Each further Sub-Class of Bonds has been or will be issued in bearer or registered form as described in Chapter 8 "*Terms and Conditions of the Bonds*". Each Sub-Class of Bearer Bonds will be represented on issue by either a Temporary Global Bond or a Permanent Global Bond, as specified in the relevant Final Terms. Registered Bonds will be represented by Certificates, one Certificate being issued in respect of each Bondholder's entire holding of Registered Bonds save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in respect of Registered Bonds*). Certificates representing Registered Bonds that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Bond Certificates**". Registered Bonds will not be exchangeable for Bearer Bonds.
Fixed Rate Bonds	Fixed Rate Bonds bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms.
Floating Rate Bonds	Floating Rate Bonds bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating: (a) in the case of Bonds issued before the date of this Prospectus, the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class); and (b) in the case of Bonds issued on or after the date of this Prospectus, the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service (being EURIBOR, LIBOR or SONIA as adjusted for any applicable margin), as indicated in the applicable Final Terms. The margin (if any) relating to such floating rate has been or will be agreed between the Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds.
Indexed Bonds	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined under Condition 7(a) (*Definitions (RPI)*) and Condition 7(f) (*Definitions) (CPI and CPIH)*) are and may be calculated in accordance with Condition 7 (*Indexation*) by reference to the RPI, CPI or CPIH including owner occupiers' housing costs.
Interest Payment Dates	Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear, in respect of Floating Rate Bonds is or will

	be payable quarterly in arrear and in respect of Indexed Bonds is or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Final Terms).
Dual Currency Bonds	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Bonds	Zero Coupon Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Instalment Bonds	The applicable Final Terms may provide that Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.
Redemption	The applicable Final Terms indicate or will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, or for taxation reasons if applicable, or following an Index Event or an Event of Default) or that such Bonds will be redeemable at the option of the Issuer and/or the Bondholders upon giving notice to the Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.
Redemption for Index Event, Taxation or Other Reasons	Upon the occurrence of certain index events (as set out under Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)), the Issuer may redeem the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds are also redeemed. In addition, in the event of the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may: (i) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out under Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)); and, failing this, (ii) redeem (subject to certain conditions as set out under Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)) all (but not some only) of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest. No single Class or Sub-Class of Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time.

	In the event of SWS electing to prepay an advance (in whole or in part) under an Issuer/SWS Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of the corresponding Sub-Class of Bonds or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Issuer/SWS Loan Agreement. Bonds having a maturity of less than one year from the date of issue are subject to restrictions on their denomination and distribution. See "*Certain Restrictions – Bonds with a maturity of less than one year*" above. The Issuer shall only be permitted to pay Early Redemption Amounts to the extent that in so doing it will not cause an Event of Default to occur or subsist.
Denomination of Bonds	Bonds have been and will be issued in such denominations as were or may be agreed between the Issuer and the relevant Dealer save that: (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds); and (ii) in any other case, the minimum specified denomination of each Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Certain Restrictions – Bonds with a maturity of less than one year*" above. Bonds which are admitted to trading on the Market may be issued in such denomination and higher integral multiples of a smaller amount specified in the relevant Final Terms.
Taxation	Payments in respect of Bonds are and will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer and, to the extent that there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. Notwithstanding the foregoing, no additional amounts will be paid by the Issuer or the Guarantors or, to the extent that there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms.

Status of the Bonds	The Bonds in issue constitute, and any future Bonds (in the case of Unwrapped Bonds only) issued under the Programme will constitute, secured obligations of the Issuer. Each Class of Bonds ranks *pari passu* without preference or priority in point of security amongst themselves. The Bonds represent the right of the holders of such Bonds to receive interest and principal payments from: (i) the Issuer in accordance with the terms and conditions of the Bonds (the "**Conditions**") and the trust deed dated 23 July 2003 as amended, supplemented or restated from time to time (the "**Bond Trust Deed**") entered into by the Obligors, Assured Guaranty and the Bond Trustee in connection with the Programme; and (ii) in the case of the Wrapped Bonds in issue only, the relevant Financial Guarantor in certain circumstances in accordance with the relevant Financial Guarantee. **For the avoidance of doubt, the Issuer shall not issue any Wrapped Bonds pursuant to this Prospectus.** The Class A Wrapped Bonds in issue and the Class A Unwrapped Bonds in issue rank, and any further Class A Unwrapped Bonds issued under the Programme will rank, *pari passu* with respect to payments of interest and principal. However, only the Class A Wrapped Bonds in issue have the benefit of the relevant Financial Guarantee. All claims in respect of the Class A Wrapped Bonds in issue and the Class A Unwrapped Bonds in issue and any further Class A Unwrapped Bonds issued will rank in priority to payments of interest and principal due on all Class B Unwrapped Bonds. The Class B Unwrapped Bonds in issue rank *pari passu* amongst themselves with respect to payments of interest and principal. On 19 November 2018, the Issuer entered into a deed poll to undertake to the Security Trustee (for the benefit of all of the Secured Creditors) that the Issuer will not issue any new Class B Bonds.
Covenants	The representations, warranties, covenants (positive, negative and financial) and events of default which apply and will apply to, among other things, the Bonds are set out in a common terms agreement dated 23 July 2003 (and as amended, supplemented or restated from time to time) (the "**CTA**", see Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*").
Guarantee and Security	The Bonds in issue are, and further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each of SWS, SWSGH and SWSH pursuant to a guarantee and security agreement (the "**Security Agreement**") entered into by each such Obligor in favour of the Security Trustee over the entire property, assets, rights and undertaking of each such Obligor (the "**Security**"), in the case of SWS to the extent permitted by the WIA and Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each such Obligor. The Security is held by the

	Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement, subject to the terms of the STID (as defined below). SWS's business (together with the facilities available to the SWS Financing Group) have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Bonds issued.
Intercreditor Arrangements	The Secured Creditors and each Obligor are each party to a security trust and intercreditor deed (the "**STID**"), which regulates, among other things: (i) the claims of the Secured Creditors; (ii) the exercise and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during the occurrence of an Event of Default; (v) the Entrenched Rights and Reserved Matters of each Secured Creditor; and (vi) the giving of consents and waivers and the making of amendments by the Secured Creditors. See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
Authorised Credit Facilities	Subject to certain conditions being met, the Issuer and (for certain indebtedness) SWS are permitted to incur indebtedness under authorised credit facilities (each, an "**Authorised Credit Facility**") with an Authorised Credit Provider, providing loan, hedging and other facilities (including Financial Guarantees) which may rank *pari passu* with the Class A Bonds or the Class B Bonds. Each Authorised Credit Provider is or will become party to the CTA and the STID and may have voting rights thereunder. See Chapter 7 "*Summary of the Financing Agreements*".
DSR Liquidity Facility	The DSR Liquidity Facility Providers make available to the Issuer a credit facility for the purpose of meeting certain shortfalls in revenues for the Issuer to meet, among other things, its obligations to pay interest on the Bonds. The Issuer is obliged, pursuant to the CTA, to maintain through a DSR Liquidity Facility (or DSR Liquidity Facilities) and/or amounts in the Debt Service Reserve Account an amount or amounts which is/are at least equal to the aggregate of projected interest payments on the Class A Debt and the Class B Debt for the succeeding 12 months.
O&M Reserve and O&M Reserve Facility	SWS has established a reserve in the amount of approximately £45 million (as at 18 March 2019) in the O&M Reserve Account of SWS. The principal amount credited to the O&M Reserve Account (the "**O&M Reserve**") may only be used by SWS for the purpose of meeting its operating and maintenance expenses. O&M Reserve Facility Providers may additionally make available to the Issuer a liquidity facility, the proceeds from which will be on-lent by the Issuer to SWS for the purpose of meeting SWS's operating and maintenance expenses.

Listing	The Bonds issued on the Initial Issue Date and all subsequent issues under the Programme have been admitted to the Official List and admitted to trading on the Market and were subsequently migrated to the PSM in 2006. Application has been made to admit further Bonds issued under the Programme to the Official List and to admit them to trading on the Market or the PSM. The Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. The applicable Final Terms will state that the relevant Bonds are to be listed and on which stock exchange(s).
Ratings	The ratings assigned to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The initial ratings of a Series of Bonds will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of SWS. A rating may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.
Governing Law	The Bonds in issue are and any further Bonds issued under the Programme will be governed by, and construed in accordance with, English law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Bonds in the EEA, the United States, the United Kingdom, Singapore and the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See Chapter 12 "*Subscription and Sale*".

Investor Information	SWS is required to produce an investors' report (the "**Investors' Report**") semi-annually to be delivered within 120 days from 31 March or 60 days from 30 September of each year. Such Investors' Report will include, among other things: (i) a general overview of the SWS business in respect of the six-month period ending on the immediately preceding Calculation Date; (ii) the calculations of the Class A ICR, Class A Adjusted ICR and the Senior Adjusted ICR for each Test Period (historic and projected); (iii) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the twelve-month period ending on such Calculation Date; (iv) the Class A RAR and Senior RAR (historical and projected); and (v) reasonable detail of the computations of these financial ratios. Each such Investors' Report will be made available by SWS and the Issuer to the Secured Creditors, including the Bondholders on SWS's website. SWS is also required to make available unaudited interim financial statements and audited financial statements, within 60 days of 30 September and 120 days of 31 March, respectively, and, in any event within five Business Days of the date on which they are made available. SWS will also place certain additional information on its website, as and when available. This will include, among other things, the most recently published: (a) annual charges scheme for SWS, with details of tariffs; (b) a summary of SWS's strategic business plan at each Periodic Review; (c) SWS's current Procurement Plan (if any); (d) SWS's annual drinking water quality report; (e) SWS's annual environment report; (f) SWS's annual conservation and access report; and (g) such other periodic information compiled by SWS for Ofwat.

CHAPTER 3
RISK FACTORS

The following sets out certain aspects of the Programme documentation and the activities of the SWS Financing Group about which prospective Bondholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or operational performance of the Issuer, SWS or the other Obligors and could lead to, among other things:

(a) an SWS Event of Default;

(b) an Event of Default under the terms and conditions of the Bonds; and

(c) non-payment of amounts in respect of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Bonds for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Bonds are exhaustive.

Prospective Bondholders should note that the risks described below are not the only risks that the Issuer, SWS or the other Obligors face. The Issuer, SWS or the other Obligors have described only those risks relating to their operations and the Bonds that they consider to be material. There may be additional risks that the Issuer, SWS or the other Obligors currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above. The following is not intended to be exhaustive and prospective. Bondholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Bondholders may lose the value of their entire investment in certain circumstances. If the Issuer has insufficient funds, the Bonds may not be repaid in full on their respective maturity dates.

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Sub-Class receive payment of interest or repayment of principal from the Issuer in respect of such Bonds on a timely basis or at all.

1 Risks Relating to SWS – Regulatory, Legislative and Political Risks

The water industry is subject to extensive legal and regulatory controls with which SWS must comply. The application of the laws, regulations and standards and the policies published by Ofwat, DEFRA, the DWI, the Environment Agency (the "**EA**"), Natural England and other regulators could have a material adverse effect on the business, financial condition or operational performance of SWS.

In this context, in particular, potential investors should be aware of the following:

1.1 Investigations (See Chapter 5 "*Description of the SWS Financing Group*")

Companies of the size and scale of SWS are sometimes subject to various investigations, claims, disputes and potential litigation. The significant ongoing investigations by regulatory bodies (the EA and the DWI) are mentioned below. Should the determination of these investigations be made against SWS, such determinations could have an adverse impact on the financial position of SWS.

Ofwat

As further disclosed in Chapter 5 "*Description of the SWS Financing Group*" under "*Ofwat, Environment Agency and DWI Investigations*" on page 70, in October 2019 Ofwat imposed a penalty of £3m on SWS for contravention of statutory and licence provisions in relation to the management of its wastewater treatment works and the reporting of performance information to Ofwat, which are discussed further in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". SWS also agreed to customer redress measures totalling £123m (in 2017-18 prices). The imposed penalty could have an adverse effect on the financial position of SWS going forward.

As part of the Ofwat investigation SWS shared the details of the various measures that were carried out, or measures that were being planned, with the aim of addressing the breaches highlighted.

The undertakings that have been agreed with Ofwat include the remedial actions that SWS had been discussing and agreeing with Ofwat when the draft Penalty Notice was published. The remedial actions also include additional activities formulated as a result of the Ofwat public consultation that took place after the publication of the Draft Penalty Notice. In this respect, the Court has some assurance that the improvement and remedial measures will be implemented as they are subject to a formal Section 19 WIA undertaking. This undertaking has in-built compliance monitoring and assurance provisions.

The EA

On 11 March 2020, SWS pleaded guilty to a total of 51 charges relating to non-permitted discharges at 17 different operational sites in Kent, Sussex and Hampshire. The relevant discharges took place from 1 January 2010 to 1 December 2015.

The case arises out of a large-scale criminal investigation by the EA into SWS which arose out of concern over water quality along the North Kent and South Coast of England. The case is likely to be concluded in late 2020 following a sentencing hearing currently due to take place in the Autumn. The financial impact of these proceedings is currently unknown.

In 2016, following visits by the EA, SWS set up a specific project to internally investigate the wastewater sites concerned. All permitted wastewater treatment works have been subject to a technical review by the project team. Having carried out this review, SWS is continuing such audits on all relevant wastewater treatment works on a rolling programme. The programme of site audits and resulting corrective actions has been an area of significant progress with over 1000 actions being progressed across the business (with over 800 having been completed, and the remainder subject to longer term plans). In addition, SWS has a specific budget to identify and correct any permit compliance risks identified by the audits, which includes a specific budget of £26 million for the corrective actions identified so far.

SWS is also under a separate criminal investigation by the EA regarding the historical performance of certain wastewater treatment sites and the reporting of relevant compliance information to the EA. SWS is working proactively to co-operate with this separate investigation, which is still evolving. The financial impact of this second investigation is also currently unknown. Neither a provisional nor a final enforcement order has been made in relation to these investigations.

Since 2017 the SWS Board has presided over some key changes to SWS's senior management team. Southern Water Services Ltd has a new CEO, Chairman and a new executive leadership team with a radically changed structure designed to improve compliance and operational excellence, with strengthened governance. The new structure incorporates a risk and compliance directorate (originally formed as a compliance and asset resilience directorate, with asset strategy and resilience now forming its own directorate). The risk and compliance directorate has improved risk management, giving greater oversight to reporting procedures and assuring the integrity of data.

SWS is undertaking significant cultural change and ethical transformation to address the issues arising from these Ofwat and EA investigations including:

- strengthened whistle-blowing policies including through the appointment of an independent adjudicator so any colleague with concerns feels confident they will be listened to;
- enhanced compliance across all wastewater treatment works including compulsory compliance and Code of Ethics training for all relevant colleagues; and
- refreshed company vision, values and purpose which support and align to a modern compliance framework.

The DWI

SWS is subject to a DWI investigation arising from 2014–15, in relation to water turbidity for which a decision is pending from the DWI. SWS is also subject to a DWI investigation in relation to operational issues at a water supply reservoir and chlorine levels above the WHO limit detected in May 2018, for which a decision is pending from the DWI.

SWS was subject to two final enforcement orders. Following the conclusion of its formal consultation process on 2 January 2020, the DWI confirmed the revocation of the final enforcement order concerning water quality sampling and information management issues. The DWI also accepted SWS's updated Information Management Undertaking which sets out a longer-term improvement programme on asset data, GIS systems and asset data quality controls. A final enforcement order remains in place in respect of the implementation of a nitrates reduction scheme at Shoreham. The DWI have been informed of progress on this and are satisfied with the situation to date.

1.2 Economic Regulatory Mechanisms (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*")

From the five-year period starting on 1 April 2015 (the "**AMP6 Period**"), a number of regulatory mechanisms were used to measure performance (including the Revenue Correction Mechanism, the Service Incentive Mechanism ("**SIM**") and the Capital Expenditure Incentive Scheme. Under each of these mechanisms, performance in the current AMP Period leads to adjustments in the following AMP Period.

Pursuant to the methodology published in December 2017, these mechanisms have been updated in the five-year period starting on 1 April 2020 (the "**AMP7 period**"). Ofwat has, for example, replaced the existing SIM with Customer Measure of Experience ("**C-MeX**") and is creating a new incentive mechanism, Developer Services Measure of Experience ("**D-MeX**"). C-MeX and D-MeX are both financial and reputational incentives to improve the satisfaction of Regulated Companies' residential and new connections customers, respectively.

There is no guarantee that current and/or future price controls will permit the generation of sufficient revenues to enable SWS to meet its obligations under the Bonds (including the payment of principal and interest to investors).

1.3 Breach of Licence (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*")

A failure by SWS to comply with the conditions of the Licence or certain statutory duties, as modified from time to time, may lead to the making of an enforcement order by Ofwat or the Secretary of State, or the imposition of financial penalties of up to 10 per cent. of SWS's turnover, which could have an adverse impact on SWS's financial position. Failure by SWS to comply with any enforcement order (as well as certain other defaults) may lead to the making of a Special Administration Order (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Special Administration Orders*", which could also have an adverse impact on SWS.

Penalties imposed by Ofwat or the Secretary of State must be reasonable in all the circumstances.

In June 2019, SWS agreed to pay a penalty of £126 million following Ofwat's investigation into breaches of SWS', licence in relation to the management of its wastewater treatment works under Conditions B, M and F of its Licence (see "*Investigations*" above).

1.4 Licence Compliance Modification (See Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales")

As further described in Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales", SWS operates in accordance with its Licence. Under the United Kingdom Water Industry Act 1991 (the "**WIA**")**,** the conditions of the Licence may be modified by Ofwat with SWS's consent or without SWS's consent where, following a reference to the UK Competition and Markets Authority ("**CMA**"), the CMA concludes that there are effects adverse to the public interest which can be remedied or prevented by modifications. Modifications could also result from a decision on a merger or market investigation reference by the CMA. In addition, the Secretary of State has the power to veto certain proposed modifications agreed by Ofwat and SWS. Other proposed modifications agreed by Ofwat and SWS may be vetoed if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the CMA.

Finally, primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. Section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of amendments made under that Act (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Competition in the Water Industry – General*").

Any modification to the conditions of the Licence, and the manner in which such modifications are implemented, could have a material adverse impact on the business, financial condition or operational performance of SWS. Any failure or perceived failure by SWS to comply with licence modifications or related requirements could result in substantial fines, loss or debarment of licence, or legal proceedings and have a negative impact on operations and reputation.

1.5 Regulatory Changes to Increase Competition in the Water Industry (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Water and Wastewater Regulation Generally*" and "*Competition in the Water Industry*")

The Water Act 2003 and the Water Act 2014 have increased competition in the water industry and may have a negative impact on SWS's business, results of operations, profitability or financial condition.

Ofwat has taken steps to introduce competition into the water supply and sewerage services markets via inset appointments and the non-household retail market (as described below). While the current arrangements have allowed increased competition in the non-domestic and non-household markets, there is an ongoing risk that additional steps may be taken to introduce further competition into the market.

Inset appointments: Under the WIA, new entrants in Regulated Companies' areas are also able to obtain a water supply licence to supply non-domestic customers with a consumption of over 5 megalitres a year. Further, the Water Act 2014 permits new entrants into Regulated Companies' area to apply for licences to provide a variety of new upstream and retail services on both the water supply and sewerage sides of the business. The area of appointment of Regulated Companies can furthermore be varied in accordance with the NAV regime, which allows one Regulated Company to replace another as the provider of water or wastewater services in a specified geographical area within the other Regulated Company's appointed territory. As of March 2020, there have been 51 inset appointments made in SWS's region and further inset appointments may be made in the future.

Non-household retail market: The Water Act 2014 amended the WIA and introduced the Water Supply and/or Sewerage Licence ("**WSSL**") regime to enable the creation of a new market for retail water and sewerage services to all non-household customers in England. The non-household retail market launched on 1 April 2017, replacing the previous Water Supply Licence (WSL) regime and repealing the Threshold Requirement. SWS exited the non-household retail market on 3 April 2017 in accordance with the Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016 ("**Exit Regulations**") and transferred its non-household retail business for fair value to Business Stream.

Enforcement action: Ofwat has also stated that it will use its powers under the Competition Act, which provides Ofwat and the CMA with the power to investigate and prohibit anti-competitive agreements and conduct relating to the water and water recycling sector. These powers include the power to impose penalties of up to 10 per cent. of worldwide group-wide turnover for the business year preceding the finding of the infringement. Any agreement which infringes the Competition Act may be void and unenforceable. Breaches of the Competition Act may also give rise to claims for damages from third parties. The Enterprise Act 2002 (the "**Enterprise Act**") adds further remedies for breach of competition law. The Enterprise Act contains criminal sanctions, including the possibility of imprisonment of individuals who have been involved in certain cartels, and directors involved in breach of competition law may be disqualified. Consumer groups are able to bring actions on behalf of customers (including for damages).

In May 2019, Ofwat announced that it considered that there were numerous, reoccurring examples of incumbent Regulated Companies failing to support the development of effective markets, and it published a letter sent to incumbent Regulated Companies outlining its plans to encourage the development of effective markets. Ofwat has decided to monitor incumbent Regulated Companies over a period of a few months in relation to, for example, their engagement and support for initiatives aimed at driving improvements, and the development of new markets. Regulated Companies were asked to respond to the letter by October 2019, and Southern Water has responded, setting out its progress in certain areas. Ofwat has said that, if it does not see a significant improvement by autumn 2019, it will increase the extent of pressure it exerts on incumbent Regulated Companies, including using enforcement power where appropriate.

Indeed, in June 2019, Ofwat launched an investigation into Thames Water in relation to a potential abuse of a dominant position in relation to: (i) the company's approach to installing digital smart meters and its impact on data logging; (ii) the accuracy of customer data that was made available to retailers at the time of the opening of the business retail market; and (iii) the fairness of certain contractual credit terms applied to retailers.

1.6 Licence Termination (See Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales" under "Termination of a Licence" and "Competition in the Water Industry")

Under the terms of the Licence, SWS's appointment may be terminated without its consent following the serving of 25 years' notice from the Secretary of State. Upon expiry of the Licence, there can be no assurance that SWS would be reappointed.

The Licence may also be transferred from SWS at any time following the making of a Special Administration Order, but such an order can only be made on very specific statutory grounds. The termination, non-renewal or transfer of the Licence could have a material adverse impact on SWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

Under section 9(4) of the WIA, if the Secretary of State or Ofwat were to make an appointment or variation replacing SWS as the regulated water and sewerage undertaker for its currently appointed area, they would have a duty to ensure (so far as consistent with their other duties under the WIA) that the interests of SWS's creditors were not unfairly prejudiced by the terms on which the successor Regulated Company (or Companies) replacing SWS could accept transfers of property, rights and liabilities from SWS.

Thus far, there is no precedent to indicate how compulsory licence terminations or Special Administration Orders would work in practice for Regulated Companies, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors' interests would be protected.

1.7 The United Kingdom's Exit from the European Union (the "EU") (see Chapter 5 "*Description of the SWS Financing Group*" under "*Political and other Developments*")

As further disclosed on page 79, the UK has withdrawn from the European Union on 31 January 2020. If the UK does not reach a formal agreement with the EU by the end of the Transition Period, it is likely that a high degree of political, legal, economic and other uncertainty, including relating to the EU internal energy market, could result. The Issuer's current view is that the UK's withdrawal from the EU will not have a direct material impact on its business models.

However, its assessments are ongoing and the continuing uncertainty around this area means that it could negatively affect the ability of the Issuer to meet its respective payment obligations under the Bonds or comply with the terms and conditions of the Bonds.

1.8 Changes in Financial Reporting Standards (See Chapter 5 "*Description of the SWS Financing Group*", Chapter 7 "*Summary of the Financing Agreements*" and Chapter 12 "*Subscription and Sale*")

Certain provisions of the Transaction Documents contain conditions and/or triggers which are based upon an assessment of the financial condition of the SWS Financing Group calculated by reference to the financial statements produced in respect of the companies in the SWS Financing Group. These financial and other covenants have been set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the SWS Financing Group may result in significant changes in the reporting of its financial performance. This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated. Changes in accounting standards may also impact the tax position of the SWS Financing Group and result in increased tax payments which may ultimately have an adverse effect on the ability of the Issuer to make payments due under the Bonds.

2 Risks Relating to SWS – Failure to Meet Costs Allowed under the Price Controls

2.1 Price Controls (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*")

Periodic Review: The turnover, profitability and cash flow of the Appointed Business is substantially influenced by the service levels, regulatory targets and price limits established every five years by Ofwat in its Periodic Review, and Ofwat's assessment of delivery against those factors. A more detailed description of the process under which Ofwat determines price limits for SWS is described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*".

The review for the five years to March 2025 was concluded in December 2019 and SWS accepted the Final Determination on 14 February 2020. Under the Final Determination, SWS will need to deliver various commitments and failure to do so may impact the ratings assigned by the Rating Agencies in page (vi). See Chapter 5 "*Description of the SWS Financing Group*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" for a description of the various commitments which SWS is required to deliver. See Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Events, paragraph (ii) (Credit Rating Downgrade)*" and Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Event Consequences*" for a description of the possible consequences of rating action taken by the Ratings Agencies, including as a result of SWS's failure to deliver its commitments under the Final Determination or for any other reason.

Although Ofwat has a duty to exercise and perform its duties in the manner it considers best calculated to, among other primary duties, ensure that all water companies including SWS are able (in particular, by securing reasonable returns on its capital) to finance the proper carrying out of its functions, an adverse price determination, which would adversely affect turnover, profitability and cash flow, may occur as a result of a number of factors. These include an inadequate allowed cost of capital or regulatory assumptions concerning operating expenses and required capital expenditure, as well as turnover forecasts proving not to be sufficiently accurate. In addition, unforeseen financial obligations or costs may arise (for example, as a result of ensuring regulatory compliance or changes to legislation or regulatory requirements, some instances of which are provided below) after a Periodic Review which were not taken into account by Ofwat in setting price limits and are consequently not compensated for, which could adversely affect financial performance (although in most cases, changes as a result of legal and regulatory requirements are likely to be allowed).

Interim Determinations: As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Interim Determination of a Price Limit*", an Interim Determination of price limits (an "**IDOK**") may be made between Periodic Reviews in specified circumstances, including, in the cases of SWS and most other Regulated Companies, the circumstances contemplated by the substantial effects clause in the Licence. In contrast to Periodic Reviews, the methodology to be applied for any IDOK is set out in detail in the Licence and the scope for discretion is narrower.

There is, however, no assurance that any IDOK sought by SWS will be made or, if an IDOK or determination pursuant to the provisions of the substantial effects clause is made, that any adjustment made pursuant to such an IDOK, or determination pursuant to the substantial effects clause, as the case may be, will provide adequate revenue compensation to SWS. Therefore, SWS would have to bear any additional loss from its own resources.

SWS revenue and cost considerations: The scale of work SWS intend to undertake to achieve transformational and organisational change to 2025 presents the risk that the cash generated by the business may not be sufficient to enable SWS to make full and timely payment of amounts due to creditors. This could have a material adverse impact on SWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

2.2 Revenue Deviations from Ofwat's Projections (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Price Control*")

For the AMP6 Period, a wholesale revenue control maintains the level of company revenue despite fluctuations in demand and customer numbers. The control allows for in-period true-ups to the PR19 revenue, to take account of any under/over-recovery of revenues in prior years of the AMP. In addition, there is a wholesale revenue forecasting incentive mechanism ("**WRFIM**") which imposes a sliding scale penalty of up to 3 per cent. of the under/out performance, where such under/out performance exceeds 2 per cent. of forecast revenues. The retail revenue allowed under the AMP6 controls is based on an average cost to serve for each type of customer (unmetered, metered, household and non-household (the non-household is no longer applicable to SWS since the disposal of its non-household business)) and, therefore, adjusted as respective customer numbers change. Southern Water's actual expenditure may be higher than its allowed expenditure, resulting in an adverse impact on its profitability.

For the AMP7 period this mechanism is replaced with a revenue forecasting incentive ("**RFI**"). The RFI is a symmetric revenue adjustment applied in-period to reconcile any revenue, under or over-recovery in an earlier year. Where differences between actual and allowed revenues are greater than 2%, the RFI applies a financial penalty. The RFI is applied to the network plus and water resources price controls.

The price controls determined by Ofwat for each of the AMP6 and AMP7 Periods are based, *inter alia*, on assumptions of the total expenditure ("**Totex**") SWS requires to deliver its obligations in each year of the AMP. For a range of reasons, SWS's expenditure in the relevant period may exceed these assumed sums and, while the terms of the price control enable SWS to recover a share of any incremental expenditure required above the assumed sum from customers through price controls for the next AMP, the company's profitability would still be adversely affected.

Ofwat also makes assumptions about the amount of capital expenditure and operational expenditure which SWS requires to deliver its obligations in each year of the AMP. For a range of reasons, SWS's capital expenditure and/or operational expenditure in the relevant period may deviate from these assumed sums even if SWS remains within the assumed Totex for that period, and any such deviation may have an impact on certain of the financial ratios which form part of the financial covenants given by SWS (see Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*").

2.3 Capital Investment (See Chapter 5 "*Description of the SWS Financing Group*" under "*Capital Investment Programme*")

The Appointed Business requires significant capital expenditure for additions to, or replacement of, plant and equipment for its water supply and sewerage facilities and networks. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs.

If SWS is unable to deliver its capital investment programme at expected expenditure levels or is unable to secure the expected level of efficiency savings on its capital investment programme, or the programme falls behind schedule or contains incorrect assumptions by SWS as to the capital investment required, SWS's profitability might suffer because of a need for increased capital expenditure. Alternatively, failure to make the required investment could result in SWS having to pay substantial penalties under the outcomes framework originally introduced by Ofwat at PR14. SWS's ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in enforcement action or other regulatory sanctions and the need for further increases in capital expenditure and operating expenditure by SWS. Failure to meet the terms of any enforcement order may result in penalties imposed by Ofwat of up to 10 per cent of turnover.

2.4 **Performance Commitments and Incentives** (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*")

For each five-year AMP Period, SWS agrees to a number of commitments in relation to its operational performance ("**performance commitments**") across price controls in wholesale water, wholesale water network, wholesale wastewater network, bioresources and household retail. Actual performance against these commitments will increase or decrease revenues where commitments have financial penalties associated with underperformance or rewards for outperformance (outcome delivery incentives, "**ODIs**"). These incentives will be monitored during the relevant AMP Period and, in respect of AMP6, the majority of these ODI rewards and penalties will apply to revenues from 1 April 2020. For one ODI, relating to leakage performance, rewards and penalties may be applied to revenues during the 2015 to 2020 period[2].

The ODIs in the AMP6 Period are now incorporated into the Final Determination and will therefore be implemented in the allowed revenues for AMP7 with the final year ODIs being reflected in AMP8 (starting in 2024).

For most AMP7 ODIs, the rewards and penalties will be levied in the same AMP7 Period with only a few due at the end of the period. Due to the challenging aspects of AMP7, SWS faces material risk of penalties from operational underperformance as well as opportunities for rewards for outperformance. There is a risk that any penalties incurred may affect the Issuer's ability to meet its payment obligations under the Bonds.

2.5 **Inflation** (see Chapter 5 "*Description of the SWS Financing Group*")

SWS's turnover for AMP6 is linked to the underlying rate of inflation (measured by the Retail Price Index) and, as such, is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on the operating costs and capital expenditure of SWS and on customers' ability to pay any increased charges.

SWS's reported RCV is adjusted by RPI each year when calculating Class A RAR and Senior RAR, and, as such, is subject to changes in the rate of inflation. In addition, the reported carrying value of index-linked debt and derivatives at the SWS Financing Group is also adjusted by RPI, at different points in time, during each year. In particular, deflation (negative inflation) could result in an increase in the Class A RAR and Senior RAR as a result of the reported carrying value of nominal debt remaining fixed in value.

For AMP7, wholesale revenues will be indexed by reference to CPIH, a measure of CPI inflation including housing costs from 1 April 2020. CPIH is the main measure of inflation currently used by the Office for National Statistics ("**ONS**") and is expected to significantly reduce the volatility of bills because RPI is a more volatile measure of inflation than CPIH. In addition, 50 per cent. of RCV, as at 1 April 2020, will be indexed by the RPI, and the remainder of the RCV as at that date, plus any new RCV added after that date, will be indexed by CPIH. Ofwat intends to implement a full transition to indexation by CPIH as soon as practicable. Ofwat's precise approach to RCV price indexation beyond 2025 has not been fully detailed.

The SWS Financing Group has liabilities linked to RPI, including in the form of Indexed Bonds. The mismatch following the change to CPIH and the full transition to that measure which is anticipated could lead to SWS not having sufficient resources to make payments of interest and principal, in particular on these instruments which are linked to RPI. In addition, the transition to CPIH could have financial risks for SWS in terms of RCV and revenue growth.

2.6 **Increased Energy Costs** (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Urban Waste Water Treatment Directive*")

SWS is a large consumer of energy, and energy represents a significant proportion of its total operating costs. Therefore, SWS is subject to the risk of increased energy costs. Wholesale energy prices continue to be very volatile, reflecting global economic and political conditions.

[2] Please see pages 21-27 of the Final Determination for further detail https://www.ofwat.gov.uk/publication/pr19-final-determinations-southern-water-final-determination/

SWS continues to seek ways to mitigate the impact of known increases through efficiency savings built into its AMP7 business plans. Planned savings include energy-efficiency measures as well as increased use of power generated from SWS's sites via renewables such as solar arrays and combined heat and power (CHP) plants that burn bio-methane as a product of wastewater sludge digestion processes. SWS's AMP7 business plan included targets to increase renewable generation to 24 per cent. by 2022/23 from 15.8 per cent. in the financial year 2018/19. This will reduce SWS's dependency on national grid supply and thus reduce SWS's exposure to national grid supplied prices.

SWS operates a Capital At Risk (CAR) hedging strategy to mitigate financial risk against price increases. The hedging strategy will be reviewed with the aim of making further improvements in AMP7 to ensure that the strategy reflects the risk appetite of the wider SWS organisation. This review will include the potential to utilise the Corporate Power Purchase Agreements to gain price certainty should that be deemed desirable.

However, further increases in energy prices and/or the cost of other commodities could lead to greater operating costs which could adversely affect SWS's business, results of operations, profitability or financial condition. This could result in SWS having insufficient revenues to meet its financing obligations.

2.7 Non-Recovery of Debts

As with all service providers, SWS is exposed to the risk of potential non-payment by customers of their debt, which may cause SWS's profitability and operating cash flows to suffer. This risk is exacerbated by the WIA, which prohibits the disconnection for non-payment of a water supply for domestic use in any premises and the limiting of a supply with the intention of enforcing payment for domestic use in any premises, although allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. To achieve a resetting of its price limits through an IDOK outside a Periodic Review Period when changes in the regulatory assumptions as to the level of non-recoverable debt are material, SWS would need to provide evidential proof that: (i) the increase was due to a deterioration in the economy; and (ii) it has put in place appropriate procedures and measures to mitigate the increase in debt levels. If the IDOK is unsuccessful, SWS may, suffer losses from its inability to recover its debts fully, which could have a material adverse impact on the business, financial condition or operational performance of SWS.

3 Risks Relating to the SWS Financing Group – Legal Considerations

3.1 Ability to Grant Security (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*" and "*Security*")

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, the WIA restricts a Regulated Company's ability to dispose of interests in (or create a charge or mortgage over) Protected Land. Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land. In the case of SWS, the Issuer estimates that the vast majority of SWS's assets by value are tangible property which is Protected Land and, therefore, cannot be effectively secured. This necessarily affects the ability of SWS to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of SWS and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see the section "*Special Administration*" below). Under the WIA, there is no right to block the appointment of a Special Administrator equivalent to the right that a holder of a floating charge over the whole or of substantially the whole of the business of a non-regulated company may have, in certain circumstances, to block the appointment of a conventional Insolvency Act administrator.

There are also certain legal restrictions which arise under the WIA and SWS's Licence affecting the enforcement of the security created under the Security Agreement. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to Ofwat or the Secretary of State, giving them time to petition for the appointment of a Special Administrator.

Accordingly, the security provided over the assets of SWS in favour of the Security Trustee in respect of the Issuer's obligations under the Bonds affords significantly less protection to the Security Trustee (and, therefore, the Bondholders) than would be the case if SWS were not a Regulated Company subject to the provisions of the WIA and its Licence.

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by SWSGH, SWSH and the Issuer. The enforcement of the security granted under the Security Agreement over the shares in any company in the SWS Financing Group (other than the Issuer), including any holding company of SWS, would not be subject to the moratorium set out in the WIA nor would it be an event which would itself result in the making of the Special Administration Order. Notwithstanding this, given Ofwat's general duties under the WIA to exercise its powers to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement of the Security granted by SWSH or SWSGH over, and subsequently any planned disposal to a third-party purchaser of, the shares in SWS would involve consultation with Ofwat.

Notice of the creation of the Security by SWS has not been and will not be given to SWS's customers or to SWS's contractual counterparties in respect of its contracts (other than certain material contracts). In addition, any security over any amounts due from customers that constitute statutory receivables may be limited by law. In addition, if SWS were to acquire any land that was not Protected Land the charge over that land granted by the Security Agreement would take effect in equity only. Accordingly, until any such assignment is perfected, registration is effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, any such assignment or charge may be or become subject to prior equities arising (such as rights of set-off).

As a result, the amount and nature of the Security Interest provided in respect of the Bonds may not be sufficient to provide payment of amounts due and owing in respect of the Bonds.

3.2 **Special Administration** (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*" and "*General*")

The WIA contains provisions enabling the Secretary of State or Ofwat (with the permission of the Secretary of State) to secure the general continuity of water supply and, where applicable, sewerage services by petitioning the High Court for the appointment of a Special Administrator, in certain circumstances (for example, where SWS is in breach of its principal duties under its Licence or of the provisions of a final or confirmed provisional enforcement order (and, in either case, the breach is serious enough to make it inappropriate for SWS to continue to hold its Licence) or is unable, or is unlikely to be able, to pay its debts). In addition, a petition by a creditor of SWS to the High Court for the winding-up of SWS could lead to the appointment of a Special Administrator where the Court is satisfied that it would be appropriate to make such a winding-up order if the company were not a company holding an appointment under the WIA. The duties and functions of a Special Administrator differ in certain important respects to those of an administrator of a company which is not a Regulated Company under English insolvency legislation.

During the period of the Special Administration Order, SWS has to be managed by the Special Administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. As noted above, while the order is in force, no steps may be taken to enforce any security over the property of SWS except with the consent of the Special Administrator or the leave of the Court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A Special Administrator may not dispose of property which is the subject of a fixed charge without the agreement of the relevant creditor except under an order of the Court. On such a disposal, the Special Administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value", which would apply in a conventional administration for a company which is not a Regulated Company.

Because of the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable to properly carry out the relevant functions of a Regulated Company. The transfer is effected by a transfer scheme which the Special Administrator puts in place (the "**Transfer Scheme**"), subject to the approval of the Secretary of State or Ofwat on behalf of the existing Regulated Company. The Transfer Scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's instrument of appointment (with modifications as set out in the Transfer Scheme) to the new Regulated Company(ies).

The Flood and Water Management Act 2010 (the "**FWM Act**") amends the special administration regime in the WIA to bring it in line with modern insolvency practice in unregulated industries. The FWM Act also streamlines the procedures for transferring a failing company to new owners. The previous regime only enabled the Special Administrator to transfer the appointment and assets of a failing water company onto one or more new owners. The changes enable the Special Administrator to pursue the goal of rescuing the Regulated Company as a going concern if this is reasonably practicable.

There can be no assurance that any Transfer Scheme in the context of a Special Administration regime could be achieved on terms that would enable creditors to recover amounts due to them in full.

3.3 Change of Law (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 20 (*Miscellaneous*))

The structure of the transaction and, among other things, the issue of the Bonds and ratings assigned to the Bonds are based on law, tax and administrative practice in effect at the date hereof, having due regard to the expected tax treatment of all relevant entities under such law, tax and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Prospectus which change might impact on the Bonds and the expected payments of interest and repayment of principal.

4 Risks Relating to the SWS Financing Group – Environmental Consideration and Ofwat Asset Health

4.1 Costs of Compliance with Environmental Laws and Regulations (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Drinking Water and Environmental Regulation*")

SWS's water supply and sewerage operations are subject to a number of EU and UK laws and regulations relating to the protection of the environment and human health, enforced primarily by the DWI and the EA. These laws establish, among other things, standards for drinking water, abstraction, and the discharge of wastewater and other polluting discharges into the environment, and procedures governing operational development.

It is possible that SWS and other Regulated Companies will incur significant costs in the future in order to comply with requirements imposed under existing or future environmental laws and regulations (including nature conservation legislation). Although the costs arising from such changes in legal requirements may, in certain cases, be eligible for the purposes of the IDOK provisions or fall to be considered as part of a Periodic Review, there can be no certainty as to how and whether future environmental laws and regulations will impact the business and financial condition of SWS and/or the interests of the Bondholders. It is possible that Ofwat may determine that the cost of fulfilling certain obligations is likely to be less than the cost actually incurred by SWS in fulfilling such obligations. In such circumstances, the funding allowed by Ofwat may not totally cover the actual costs and SWS would bear this additional element. In practice, the funding allowed by Ofwat is set for a package of obligations and some will cost more and some less.

SWS is under a duty to supply water that is wholesome at the time of supply. "Wholesomeness" is defined by reference to standards and other requirements set out in the Water Quality Regulations. Under the WIA, the DWI is required to take enforcement action against SWS for any breach of quality standards, or of monitoring, treatment, record keeping and/or information requirements of the Water Quality Regulations, unless the breach is trivial or unlikely to recur, or SWS has taken immediate remedial action, or has submitted a legally binding programme of work in the form of a Section 19 Undertaking to achieve compliance within an acceptable timescale or agrees to a notice served under Regulation 28(4) of the Water Quality Regulations (the "**Regulation 28(4) Notice**"). If there has been such a breach and SWS does not give a Section 19 Undertaking or fails to comply with its terms, or fails to comply with the terms of a Regulation 28(4) Notice, the DWI may make a provisional or final enforcement order to secure compliance. SWS currently has one final enforcement order in place in respect of the implementation of a nitrates reduction scheme at Shoreham. The DWI have been informed of progress on this and are satisfied with the situation to date. See "*Breach of Licence*" above for further information on failure to comply with a final enforcement order.

In addition, SWS may be prosecuted and fined if it supplies water that is unfit for human consumption under section 70 of the WIA. Section 19 Undertakings, enforcement action and prosecutions could materially affect the way that SWS operates, prejudice its reputation and result in the imposition of substantial penalties or other costs and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment, each of which could adversely affect SWS's business, results of operations, profitability or financial position. Drinking water quality standards may be more rigorously enforced over time and may become more stringent and new drinking water requirements may be introduced (for instance, mandatory fluoridation – see Chapter 5 "*Description of the SWS Financing Group*" under "*Fluoride Dosing*"). The Drinking Water Directive is currently being reviewed by the EU which is considering additional standards to be implemented in its next revision. Each of these factors could increase SWS's operating and/or capital costs. These costs may be wholly or partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future Periodic Reviews, but, in the event that such recovery is not possible, such costs could adversely affect SWS's business, results of operations, profitability or financial position.

Under the Environmental Permitting (England and Wales) Regulations 2016 ("**EP Regulations 2016**") (as amended by the Environmental Permitting (England and Wales) Regulations 2016), it is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of an environmental permit. The principal prosecuting body is the EA.

The terms of the environmental permit will depend largely on the type of discharge and when the permit was granted. The EA has discretion as to the terms on which Environmental Permits are granted or existing are altered. The disposal of wastewater sludge from wastewater treatment works is also controlled.

The EA also regulates water abstraction, issuing site specific abstraction licences under The Water Resources (Abstraction and Impounding) Regulations 2006. These licences regulate the volume, rate and seasonality of abstraction. The EA creates improvement programmes on a cyclical basis as part of the water industry Periodic Reviews, called the 'Water Industry National Environment Programme' or WINEP. These define site specific improvements which may be required under current or future environmental regulation and identifies the planned changes in permits or licences. In addition, the EA can require Companies to make improvements in key areas via regulatory improvement programmes such as abstraction compliance and pollution incident reduction. If necessary, the EA can require improvements to be undertaken under regulatory enforcement. These costs may be wholly or partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future Periodic Reviews, but, in the event that such recovery is not possible, such costs could adversely affect SWS's business, results of operations, profitability or financial position.

Pollution or drinking water quality incidents may also give rise to breaches of any operational Environmental Permits held by SWS, which could result in penalties and/or termination or corrective action under regulatory enforcement powers.

As a large consumer of energy, SWS has been subject to increased costs, directly and indirectly, by carbon trading schemes. Tighter caps on emissions and full auctioning of allowances applied to most electricity generators in Phase III of the EU Emissions Trading Scheme (2013 to 2020).

It is currently unclear what the terms of the UK's relationship with the EU will be, now that it has exited from the EU. The European Commission has announced that, in a "No Deal" scenario, the UK will lose access to the EU ETS Registry. The UK Government has stated that in the short term, whatever form of agreement reached between the UK and EU, the current Monitoring, Reporting and Verification requirements will remain in place and a Carbon Emissions Tax will be introduced. The plans for the longer term remain under review by the UK Government. The options under consideration include: (i) establishing a UK ETS that is either standalone or linked to the EU system; or (ii) using a carbon tax. It is likely, whatever option is chosen, that energy transition costs will continue to be part of the cost of electricity. In light of the UK Government's recent announcement of its commitment to achieve its goal of becoming a net zero carbon emission country by 2050, these costs are unlikely to decline.

In addition to the UK legal obligation to become a net zero carbon emission country by 2050, the English water sector has signed up to achieving net zero carbon emissions by 2030. This is one of five Public Interest Commitments which were established in March 2019 and are currently voluntary. However, Ofwat has recently signalled its new strategy includes strengthening the sector's approach to climate change mitigation (net zero) and adaptation. The changing regulatory landscape is likely to bring increased costs and increased opportunities.

SWS was also a registered participant of the UK's Carbon Reduction Commitment Energy Efficiency Scheme, although this scheme has now been scrapped by the UK Government and is due to end following the 2018/19 compliance year. As of April 2019, Streamlined Energy and Carbon Reporting ("**SECR**") replaced the Carbon Reduction Commitment ("**CRC**"). This means SWS will be required to report in the annual directors' report: Annual and prior year Green House Gas ("**GHG**") emissions, energy usage, at least one intensity ratio, energy efficiency actions taken, along with the methodologies used to calculate.

The environmental legislation governing SWS's business means that SWS is at risk of enforcement action, prosecution, substantial fines, requirements to deal with the effects of contamination and/or upgrade plant and equipment, in the event of incidents such as the escape of sewage or a breach of water quality standards. This could materially and adversely affect SWS's reputation and/or financial position.

4.2 Erratic Weather and Climate Change (See Chapter 6 "*Regulation of the Water and Wastewater industry in England and Wales*" under "*Drinking Water and Environmental Regulation*")

Sewer flooding: changing rainfall patterns and intense storms, as well as rising sea levels, increase the risk of flooding if the volumes overwhelm SWS's assets. Excessive rainfall can also lead to very high groundwater levels which SWS cannot control. This can cause flooding of private land and property and lead to the inundation of our sewers and pumping stations. Rising sea levels would also increase the risk of flooding our sewers, pumping stations and wastewater treatment works which can be close to the sea. Although we are developing new approaches to assess future risks, it can be difficult to accurately forecast the occurrence and effects of changing rainfall patterns. The financial costs of measures required to deal with sewer flooding may not, therefore, be taken into account in a Periodic Review, and such financial costs could have a material adverse impact on the operational performance and financial condition of SWS.

Water shortages: Changing weather patterns will pose an increasing challenge for SWS in future years, both in terms of the volume of water available and resilience to extreme weather. SWS may also need to take measures to protect local environment needs which can result in a reduction in the amount of water that can be abstracted for water supply and cause water shortages. In the event of water shortages, additional costs may be incurred by SWS in order to provide emergency reinforcement to supplies in areas of shortage, which may adversely affect its business, results of operations, profitability or financial condition. In addition, restrictions on the use or supply of water (including temporary use bans and Drought Orders or Drought Permits) may adversely affect SWS's turnover and may, in very extreme circumstances requiring an Emergency Drought Order (which have never been experienced by SWS), lead to significant compensation becoming due to customers because of interruptions to supply, both of which could have a material adverse impact on the business, financial condition or operational performance of SWS.

SWS have agreed with EA to take less water from its surface water sources on the River Test and River Itchen in Hampshire in dry years. As a result, it has a large supply-demand deficit to resolve in a design drought scenario, which is a 1 in a 200 year frequency drought event (the "**Design Drought Scenario**"), and has proposed a series of interventions to recover this deficit in its 2019 Water Resources Management Plan (the "**SWS WRMP**") by 2029-30 (see Chapter 5 "*Description of the SWS Financing Group*" under "*Water Supply*" for further information on how SWS intends to recover this deficit). Southern Water has a best endeavours obligation to resolve the supply-demand water resources deficit by 2027, and is working collaboratively with the EA, DWI, Ofwat and other UK water companies through the RAPID group (Regulators' Alliance for Progressing Infrastructure Development) to develop the most appropriate interventions to meet the future water supply deficit throughout the UK. Negative consequences may arise in the event that Southern Water is unable to satisfy its obligations by 2027 (or such later date as may be agreed with the relevant parties), including that its operational expenditure in relation to the SWS WRMP may be non-recoverable unless the EA, DWI and Ofwat agree to accommodate such delays. Any non-recoverable expenditure would be significant.

Rising sea levels could result in a loss of deployable output. Surface water works could be susceptible to increased flooding, and river estuary sources to increased salinity. Ground waters near the coast could suffer sea water intrusion into aquifers, particularly in low-lying coastal areas such as Brighton and Worthing. These risks have been identified in the SWS WRMP however quantification of the risks is currently highly uncertain.

SWS obtains a high proportion (approximately 66.7 per cent.) of the water which it supplies from underground sources rather than rivers and reservoirs, and inadequate winter rainfall over two or more years may prejudice the adequate recharging of such sources (see Chapter 5 "*Description of the SWS Financing Group*" under "*Water Resources*" for further information on how SWS manages this supply risk).

Potential water shortages may be exacerbated by: (i) reductions in the volume of water licensed to be abstracted imposed by the EA to mitigate environmental damage or to achieve sustainable levels of abstraction; (ii) sites being out of service; or (iii) the raw water not being suitable for use. Costs may be incurred by SWS in implementing replacement sources for which SWS may not be compensated, and abstraction charges could be increased by the EA to cover compensation payments made to other abstractors whose licences are revoked or varied to alleviate environmental impact, each of which could have a material adverse impact on the business, financial condition or operational performance of SWS.

4.3 **Catastrophe Risk** (See Chapter 5 "*Description of the SWS Financing Group*" under "*Insurance*")

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage to or destruction of SWS's operational assets. Subject to a possible IDOK under the substantial effects clause, any costs resulting from suspension of operations of SWS could have a material adverse effect on the ability of SWS to meet its financing obligations.

Although the CTA requires SWS to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds from such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be available for some or all of these risks in the future at commercially reasonable rates or at all (see further Chapter 5 "*Description of the SWS Financing Group – Insurance*").

Service interruptions due to key site or installation disruption: Unexpected failure or disruption (including criminal acts or major health and safety incidents) at a key site or installation (including a reservoir or treatment works) could cause a significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that SWS operates, prejudicing its reputation and resulting in additional costs, including liability to customers or loss of revenue, each of which could have a material adverse impact on the business, financial condition or operational performance of SWS. This could result in SWS having insufficient revenues to meet its financing obligations.

Contamination of water supplies: Water supplies may be subject to contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made substances or criminal acts. In the event that SWS's water supply is contaminated and it is unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source in a cost-effective manner, there may be an adverse effect on its business, results of operation, profitability or financial condition because of the resulting damage to reputation and required capital and operational expenditures. SWS could also be fined for breaches of statutory requirements or regulations or held liable for human exposure to hazardous substances in its water supplies or other environmental damage, which could have a material adverse impact on the business, financial condition or operational performance of SWS.

Such operational costs may be partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*PR19: Changes to Price Limits*" or future Periodic Reviews but, in the event that such recovery is not possible, such costs could be significant and could have a material adverse impact on the business, financial condition or operational performance of SWS. SWS also maintains insurance policies in relation to legal liabilities likely to be associated with these risks. However, all the costs of any such liabilities may not be covered by insurance, and insurance coverage may not continue to be available in the future. In addition, contamination of supplies could exacerbate water shortages, giving rise to the issues described above.

Disruption at key sites or installations: Some of SWS's sites or installations (including certain reservoirs, pumping stations and/or water or wastewater treatment works) account for a relatively large percentage of the operations of the Appointed Business. These sites and installations are, therefore, key to the ongoing proper operation of the Appointed Business and, as a result, SWS's business, results of operations, profitability or financial condition could be adversely affected in the event of an unexpected major disruption (including because of criminal acts or a major health and safety incident) at one or more of these sites or installations.

There is also a risk that extreme weather conditions could cause flooding, prolonged periods of drought and/or operational difficulties, which could adversely affect SWS's service performance and give rise to potential penalties, the need to pay compensation to customers or other regulatory action. In this regard, SWS maintains insurance cover consistent with the generally accepted practices of prudent water and sewage companies, and this includes business interruption insurance.

*Disruption due to outbreak of coronavirus ("**COVID-19**")*: The outbreak, or threatened outbreak, of any severe communicable disease such as COVID-19 (commonly referred to as coronavirus) and regulators' or market fears about the same, may adversely affect SWS's operations, directly, or through SWS's supply chain.

At the date of this document SWS is not aware of the full extent of the outbreak, or the impact, if any, on its operations but has taken, and continues to take, preparations and precautions to address the potential impact of the disease on its workforce and customers, and will continuously monitor the situation to ensure those preparations and precautions are regularly updated as necessary having regard to national scientific and health advice. To this end, SWS has established a COVID-19 working group led by senior executives of the company and is working with the water sector incident management team, water industry regulators and DEFRA.

However, if any of SWS's employees or employees of SWS's suppliers are suspected of contracting an epidemic disease, this could require SWS or its suppliers to quarantine some or all of these employees, relocate employees or have employees work from home or disinfect the facilities used for its operations, which could in turn result in delays and/or additional costs and regulator or market fears may require that enhanced steps are taken in this regard. Significant changes have been implemented already to increase working from home. If significant employee absence due to illness occurred for a period of weeks, critical activities would be prioritised, and employees deployed in order to limit the impact on service and compliance, which could result in delays to non-critical activities. SWS will be communicating with customers and proactively liaising with regulators, but delays to non-critical activities have the potential to increase risk of customer dissatisfaction, reputational damage and regulatory penalties and/or regulatory enforcement. A prolonged pandemic could result in national and international supply chain shortages for key chemicals and materials, with their consequential impact on operational service and construction work.

The policies of the UK Government, including in relation to support for businesses, are being updated on a daily basis and it is not clear what the full financial and market impact on SWS associated with COVID-19 will be, but risks include a reduction in cash flow and increase in bad debt due to consumer and businesses economic uncertainty, retail market uncertainty and supply chain uncertainty. Cash receipts from both household customers and non-household retailers may exhibit volatility due to the impact of COVID-19 and the associated actions of the UK Government and regulators (including Ofwat and MOSL (Market Operator Services Limited)). A fall in demand, delayed payment, including as a result of payment holidays, or non-payment of bills and charges or disruption to the receipt of bills by customers may have a material impact on net cash flow from operating activities and materially adversely impact SWS's operations, business and ability to comply with cover ratios calculated with reference to Net Cash Flow. On 30 March 2020, MOSL implemented certain changes to the non-household retailer code, including in respect of vacancies and an ability for retailers to defer up to 50 per cent. of payments in March, April and May 2020. The impact of these changes and of COVID-19 more generally is under continual assessment by SWS but is unknown at this time.

COVID-19, or any other severe communicable disease, could therefore cause a significant interruption to the supply of services and could limit SWS's ability to respond to a major interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that SWS operates its business, result in additional operating costs (including liability to customers), or loss of revenue, each of which could have a material adverse impact on the business, financial condition or operational performance of SWS and could have a prejudicial impact on SWS's reputation.

4.4 Ofwat Asset Health (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Licences*")

The latest reported performance of SWS's assets, for 2018/19, shows "stable" performance[3] for both water and sewerage service assets. There is a risk of specific factors leading to a lower performance assessment for individual services and years. Failure to deliver "stable" serviceability in the future could lead to ODI penalties related to the asset health performance commitment. asset health ODI penalties are subject to caps (maximum levels). The maximum asset health ODI penalty for water over AMP6 was £6.1 million. This would be incurred if all five asset health indicators are at the cap level in each year of the AMP. For wastewater, the maximum ODI penalty for asset health was £85 million over AMP6. This was dominated by one indicator – wastewater treatment works population equivalent compliance – which had a maximum of £75 million over AMP6 (£15 million per annum). SWS does not currently expect that it will incur any ODI penalties in respect of Asset Health ODIs for AMP6.

For AMP7, four performance commitments have been explicitly identified as relating to asset health – mains repairs, unplanned outages, sewer collapses and wastewater treatment works compliance. The maximum penalty for sewer collapses is uncapped, but based on recent performance is unlikely to exceed £3m over the AMP. The remaining three asset health performance commitments have a theoretical maximum ODI penalty of £183m, with wastewater treatment works compliance (£100m) and unplanned outage (£53m) being the largest. The level of any penalties that might materialise is currently unknown.

[3] Accurate per pg. 70 of the 2019 Annual Report, published in July 2019

5 Risks Relating to the Issuer – Financing Considerations (see Chapter 4 "*Financing Structure*")

5.1 Future Financing

The SWS Financing Group will need to raise further debt from time to time in order, among other things, to:

(i) finance future capital enhancements to SWS's asset base;

(ii) on each Interest Payment Date on which principal is required to be repaid and on the maturity date of the relevant Sub-Classes of Bonds, refinance the Bonds; and

(iii) refinance any other debt (including for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds.

While the CTA and the STID contemplate the terms and conditions on, and circumstances under, which such additional indebtedness can be raised, there can be no assurance that the SWS Financing Group will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and, in particular, such that all amounts then due and payable on the Bonds or any other maturing indebtedness will be capable of being so paid when due.

Following SWS's acceptance of the FD on 14 February 2020 (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Final Determination ("FD")*"), the Rating Agencies who currently assign the ratings set out on page vi of this Prospectus may, depending on SWS's delivery of its commitments under the FD (see further "*Risks Relating to the Issuer – Financing Considerations*" under "*Failure to Deliver Operational Performance or Cost Savings Implicit in the Periodic Reviews*"), take rating action and downgrade the ratings set out on page (vi). If such Rating Agencies were to take rating action as a result of the SWS's failure to deliver its commitments under the FD or for any other reason, and such action were to involve a rating downgrade by certain Rating Agencies, a credit rating trigger event ("**CRTE**") would arise pursuant to the credit rating downgrade trigger event described in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Events, paragraph (ii) (Credit Rating Downgrade)*". A CRTE would have the consequences described in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Event Consequences*".

5.2 Failure to Deliver Operational Performance or Cost Savings Implicit in the Periodic Reviews (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*")

Operating cost savings to be achieved during an AMP Period are implicit in the Periodic Review. To assist the achievement of these operating cost savings, a major transformation and efficiency programme is underway. If operational performance were to deteriorate, this deterioration may be reflected by less favourable outcomes in future Periodic Reviews which could cause SWS's profitability to suffer.

5.3 Cost of Debt (See Chapter 4 "*Financing Structure*")

The net operating revenues generated by SWS from its water and wastewater business may not be sufficient to enable it to make full and timely payment of amounts due to creditors, including under the Issuer/SWS Loan Agreements. This could have a material adverse impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

In addition, Ofwat assesses the cost of debt at price reviews on the basis of a hypothetical efficiently financed company. According to Ofwat, such a company would retain the flexibility to respond to changing market conditions and hold a balanced portfolio of debt. There is no guarantee, therefore, that allowance would be made for the costs of then existing fixed rate debt, if current forward-looking rates at the time were lower and if Ofwat took the view that such debt had not been prudently incurred.

5.4 **Leverage** (See Chapter 4 "*Financing Structure*")

As at the date of this Prospectus, the SWS Financing Group has indebtedness in relation to its shareholders' equity. Taking into account retained cash reserves, such leverage of the SWS Financing Group was 66.40 per cent. of RCV as at 31 March 2019. In addition, also as at 31 March 2019, SWS had in issue Preference Shares for a consideration of £119.863 million, (as at 30 September 2019 the value was £90.66 million following a redemption in June 2019 and further reduced to £68.829 million following a redemption in December 2019), which is subordinated to the Class A Debt and the Class B Debt pursuant to the Intercreditor Arrangements. The ability of SWS to improve its operating performance and financial results will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates, inflation and other general economic conditions in the United Kingdom.

Further, and as noted above, Ofwat assesses the cost of debt at price reviews on the basis of a hypothetical efficiently financed company. There can be no assurance as to SWS's ability to meet its financing requirements and no assurance that SWS's degree of leverage will not have a material adverse impact on its ability to pay amounts under the Issuer/SWS Loan Agreements, which would enable the Issuer to pay amounts due and owing in respect of the Bonds.

Incurrence of additional indebtedness by SWS or the Issuer, which is permitted under the Finance Documents, may materially affect the ability of SWS, the Issuer or the other Obligors to pay amounts due and owing in respect of the Bonds.

5.5 **Termination of a Hedging Agreement** (See Chapter 7 "*Summary of the Financing Agreements*" under "*Hedging Agreements*")

The Issuer may be left exposed to interest rate risk or currency risk in the event that there is an early termination of any Hedging Agreement. A Hedging Agreement may be terminated in the circumstances set out in Chapter 7 "*Summary of the Financing Agreements – Hedging Agreements*", including where the Hedge Counterparty is required to gross up for, or receive, payments from which tax has been required to be deducted or withheld by law, which requirement has not been able to be avoided, notwithstanding the Issuer and the Hedge Counterparty having used reasonable endeavours to do so in accordance with the relevant Hedging Agreement. If a Hedging Agreement is terminated and the Issuer is unable to find a replacement Hedge Counterparty, then the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds, as a result of adverse fluctuations in interest rates and exchange rates or making any termination payment to the Hedge Counterparty, which payment will be in accordance with the Payment Priorities (see Chapter 7 "*Summary of the Financing Agreements – Cash Management*").

5.6 **Funding Risks in Relation to the Defined Benefits under SWPS** (See Chapter 5 "*Description of the SWS Financing Group*" under "*Pensions*")

The two pension schemes which operate predominantly for SWS employees are the SWPS and a CSP (together, the "**Pension Schemes**"). The SWPS is a funded defined benefit arrangement and the CSP is a defined contribution scheme.

The funding level of the SWPS is a net IAS 19 deficit of £186.7 million before deferred tax as at 31 March 2019. This deficit has arisen mainly due to continued turbulence in the stock market, low interest rates and reduced actuarial mortality rates.

The timing and quantum of future contributions in relation to the deficit have now been agreed with the Trustees and Pensions Regulator. These contributions will be dependent on future levels of RPI, but if market breakeven rates are borne out at 31 March 2016 levels, the expected base deficit contributions will be paid annually and total £223.5 million over the following 12 years. The first payment was made in November 2018.

The primary liability for funding the SWPS rests with SWS. By virtue of legislation including the Pensions Act 2004, there will be risks for SWS Financing Group arising from the operation of SWPS. Many of these are generic risks associated with the operation of UK defined benefit pension schemes generally.

In summary, the main risk factors are:

(a) The Pensions Act 2004 allows the UK pensions regulatory body (the "**Pensions Regulator**") to impose a scheme funding target and employer contribution rate if those matters cannot be agreed between the scheme trustees and the employers, and may result in more onerous funding requirements for employers.

(b) The trustees of the SWPS have the power to wind up the relevant scheme in certain circumstances (e.g. if they think it unlikely that sufficient funding will be available to provide all benefits in full). Winding up the schemes would result in a statutory obligation on the various participating employers to fund deficits in the schemes by reference to a "buy-out basis". Additionally, regulations provide that a similar statutory debt may be triggered in certain circumstances if SWS went into liquidation.

(c) The Pensions Act 2004 gives powers to the Pensions Regulator to require funding or funding guarantees for defined benefit pension schemes from any company that is connected or associated with the participating employers. This applies regardless of whether the companies sought to be made liable have any employees in the pension schemes concerned.

(d) The trustees of the SWPS have control over the investment of the relevant scheme's assets and could (having taken appropriate investment advice and consulted with the employers) alter the investment profile of the schemes. For example, they could exchange equity investments for bonds, which would typically increase the employer funding obligations in relation to the schemes because of the lower rate of return expected from lower-risk bonds.

The foregoing risks are linked to the funding level of the schemes, which can be adversely affected by a number of factors, including:

(i) reducing bond yields (low yields mean a pension obligation is assessed as having a high value);

(ii) increasing life expectancy (which will make pensions payable for longer and, therefore, more expensive to provide);

(iii) investment returns below expectation;

(iv) actual and expected price inflation (many benefits are linked to price inflation and, ignoring any compensating change in the value of assets and future expected investment returns, an increase in inflation will result in higher benefits being paid);

(v) funding volatility as a result of the mismatch between the assets held and the assets by reference to which the scheme liabilities are calculated; and

(vi) other events occurring which make past service benefits more expensive than anticipated in the actuarial assumptions by reference to which past pension contributions were assessed, including unanticipated changes to legislation or tax laws.

Employer obligations to their pension schemes (including any statutory debt) generally rank as unsecured and non-preferential obligations of the employer, with some limited exceptions.

In previous Determinations, some allowance was made for anticipated future pensions contributions and a proportion of existing pension scheme deficits are recoverable through the price limits established by Ofwat. See Chapter 5 "*Description of the SWS Financing Group*" under "*Pensions*" for details on the approach taken by Ofwat for AMP7.

Furthermore, a schedule of deficit annual contributions was agreed with the trustees (please see further Chapter 4 "*Financing Structure – Management and Employees of SWS – Pensions*"). If such deficits were not so recoverable in future, SWS's business, results of operations, profitability or financial condition could be adversely affected.

Any requirement to contribute additional funds into the SWPS to cover any additional deficits could have a material adverse effect on SWS's overall financial position.

5.7 Corporate Structure (See Chapter 4 "*Financing Structure*")

The Issuer is a special purpose financing entity with no business operations other than raising external funding for SWS through the issuance of the Bonds, borrowing under the Liquidity Facilities and Authorised Credit Facilities and entering into various Hedging Agreements. Other than the proceeds of the issuance of additional Bonds, the Issuer's principal source of funds will be pursuant to the Issuer/SWS Loan Agreements and funds available to it pursuant to the Liquidity Facilities and other Authorised Credit Facilities.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which SWS is subject. Such risks could limit funds available to SWS to enable it to satisfy in full and on a timely basis its obligations under the Issuer/SWS Loan Agreements and/or its guarantee under the Security Agreement (see "*SWS Revenue and Cost Considerations*" above).

The DSR Liquidity Facilities and any amounts credited to the Debt Service Reserve Account are intended to cover certain shortfalls in the ability of the Issuer to service payments in relation to the Class A Debt and Class B Debt on any Interest Payment Date (excluding the repayment of principal under the Bonds and the payment of any Subordinated Coupon Amounts under the Class B Bonds). However, on any such Interest Payment Date, there are no assurances that any such shortfalls will be met in whole or in part by amounts standing to the credit of the Debt Service Reserve Account or by the DSR Liquidity Facilities.

The O&M Reserve Facilities and any amounts credited to the O&M Reserve Accounts are intended to cover certain shortfalls in the ability of SWS to meet its operating and capital maintenance expenditure requirements. There are no assurances, however, that any such shortfalls will be met in whole or in part by amounts standing to the credit of the O&M Reserve Accounts or by the O&M Liquidity Facilities.

6 Risks Relating to SWS – Cyber Security

6.1 Loss of Data or Interruption of Key Business Systems

Cyber risk is a high priority for the business; over the last year the volume and complexity of cyber security threats targeting companies in the utility sector have continued to increase and are constantly evolving with key utilities increasingly a target. The publicly acknowledged nation state involvement in the targeting of the utility sector is a key driver in this risk.

Loss of, or misuse of, data could result in breaches of legislation, including, but not limited to, data protection legislation which could have an adverse impact on SWS's operational assets, performance and customer service metrics. In addition to impacts to operational assets, this could also potentially lead to significant penalties and/or reputational damage.

Please see Chapter 5 "*Description of the SWS Financing Group*" under "*Information Technology*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Water Supply*" for further information.

7 Risks Relating to all Bond Issuances

7.1 Bondholders' Rights are Subject to the STID (See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*")

The Bonds are subject to the provisions of the STID. The STID contains provisions enabling the Security Trustee to implement various modifications, consents and waivers in relation to the Finance Documents and the Bonds, subject to Entrenched Rights and Reserved Matters. See Chapter 7 "*Summary of the Financing Agreements – Security Trust and Intercreditor Deed – Entrenched Rights and Reserved Matters*". The Security Trustee is authorised to act on the instructions of the Class A DIG, or following repayment of the Class A Debt and/or the Class B DIG. Prior to a Default Situation, a Bondholder will not be entitled to vote other than in respect of Entrenched Rights and Reserved Matters.

Prior to a Default Situation, the Bond Trustee may vote on behalf of the Unwrapped Bondholders and (if an FG Event of Default has occurred and is continuing in relation to the relevant Financial Guarantor) the Wrapped Bondholders as part of the Instructing Group. However, the Bond Trustee will not be obliged to vote and will not be entitled to convene a meeting of Bondholders to seek directions in respect of such vote. Accordingly, subject to Entrenched Rights and Reserved Matters of the Bondholders, prior to a Default Situation, the Outstanding Principal Amount of the Wrapped Bonds in issue (during the continuance of an FG Event of Default in relation to the relevant Financial Guarantor) and the Unwrapped Bonds will not be voted as part of the Class A DIG or Class B DIG, as the case may be, in circumstances where the Bond Trustee is unable or unwilling to exercise its discretion.

During a Default Situation, the Bond Trustee shall be entitled to vote and will be entitled to seek directions from the relevant Bondholders in respect of such vote. However, the Bond Trustee may be prevented from voting if a valid Emergency Instruction Notice is delivered to the Security Trustee. The Security Trustee will be required to act upon the instructions contained in the Emergency Instruction Notice (see further Chapter 7 "*Summary of the Financing Agreements – Emergency Instruction Procedure*"). In respect of a vote relating to Entrenched Rights and Reserved Matters, the Bond Trustee will be required to seek directions from the Bondholders of each affected Series of Bonds in respect of such vote.

Accordingly, subject to the Entrenched Rights and Reserved Matters of the Bondholders, decisions relating to and binding upon the Bonds may be made by persons with no interest in the Bonds and the Bondholders may be adversely affected as a result. See Chapter 7 "*Summary of the Financing Agreements – Security Trust and Intercreditor Deed*".

Under the terms of the STID and the CTA, any further issues of debt securities by the Issuer must be made subject to the intercreditor arrangements contained in the CTA and the STID (to which the Bonds are also subject). No alteration of the rights of priority of the holders of Class A Bonds or, as the case may be, Class B Bonds may be made without the consent of the relevant Bondholders.

These Entrenched Rights and Reserved Matters may materially and adversely affect the exercise and proceeds of any enforcement of the Security which may, in turn, reduce any recovery amounts in respect of the Bonds.

Subject to such Entrenched Rights and Reserved Matters, the Majority Creditors or, where appropriate, Super-Majority Creditors may make a modification to, or grant any consent or waiver in respect of, the Finance Documents without the need to seek a confirmation from the Rating Agencies as to the then current ratings of the Bonds.

7.2 Limited Liquidity of the Bonds; Absence of Secondary Market for the Bonds (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 2 (*Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds*))

There can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Bonds issued after the date of the Prospectus, that it will provide any holder of Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds is affected by, among other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of SWS, developments and trends in the water industry generally and events in the appointed area of SWS.

7.3 Ratings (See Chapter 8 "*Terms and Conditions of the Bonds*" under "**The Bonds**" and Part B of the Final Terms)

The ratings assigned by the Rating Agencies to the Class A Unwrapped Bonds reflect only the views of the Rating Agencies and, in assigning the ratings, the Rating Agencies take into consideration the credit quality of SWS and structural features and other aspects of the transaction.

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of SWS.

There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies (or any of them) as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgement, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting SWS and/or circumstances relating to the water industry generally, could have an adverse impact on the ratings of the Bonds.

See Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Events, paragraph (ii) (Credit Rating Downgrade)*" and Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Trigger Event Consequences*" for a description of the possible consequences of rating action taken by the Ratings Agencies, including in response to SWS's failure to deliver its commitments under the Final Determination or for any other reason.

7.4 Rights Available to Bondholders (See Chapter 7 "*Summary of the Financing Agreements*")

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). Where, in the sole opinion of the Bond Trustee, there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of such Class, the Bond Trustee shall consider the interests of the holders of the Sub-Class of the Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds outstanding with the shortest dated maturity and will not have regard to the consequences of such exercise for any other Bondholders or any other person. The STID provides that the Security Trustee (except in relation to certain Reserved Matters and Entrenched Rights as set out in the STID) will act on instructions of the relevant DIG Representative(s). When so doing, the Security Trustee is not required to have regard to the interests of any Finance Party (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

7.5 Withholding Tax under the Bonds (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*))

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Bonds, the Issuer is not obliged to gross up or otherwise compensate Bondholders for the fact that the Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been received had no such withholding or deduction been required. The Issuer will, in such event, have the option (but not the obligation) of:

(i) redeeming all outstanding Bonds in full; or

(ii) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions).

7.6 Treatment of the Bonds for Capital Adequacy Purposes

Changes to the risk weighted asset framework (or other regulations) may affect the treatment of the Bonds for capital adequacy purposes and, therefore, affect the liquidity and/or value of the Bonds.

The Basel Committee on Banking Standards (the "**Basel Committee**") has approved significant changes to the Basel II regulatory capital and liquidity framework (such changes being commonly referred to as "**Basel III**"). In particular, Basel III provides for substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards and to establish a leverage ratio "backstop" and certain minimum liquidity standards (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provision for phased implementation such that the measure did not fully apply until January 2019) and the Net Stable Funding Ratio applied from January 2018. Implementation of Basel III requires national legislation and, therefore, the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The changes approved by the Basel Committee may have an impact on incentives to hold the Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Bonds.

In addition, recent amendments to the Capital Requirements Directive and other amendments to EU legislation could lead to certain investors being subject to additional regulatory obligations. These regulatory obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Investors should be aware that such regulatory obligations may adversely affect their own holding of the Bonds (if they fall within one of the relevant categories of regulated investors) and may adversely affect the price for which they can sell the Bonds or their ability to sell the Bonds at all.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Bonds and as to the consequences to and effect on them of the application of the Capital Requirements Directive as well as any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise. Each investor should make its own determination as to such treatment, conduct, appropriate due diligence and/or seek professional advice and, where relevant, consult its regulator.

7.7 **Risks Relating to the Guarantors and the Guarantees** (See Chapter 5 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Security*")

The Bonds in issue are, and further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each member of the SWS Financing Group, pursuant to the Security Agreement entered into by each Obligor in favour of the Security Trustee over the entire property, assets, right and undertaking of each Obligor, and in the case of SWS to the extent permitted by the WIA and its Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each Obligor. The Security is held by the Security Trustee on trust for the Secured Creditors under the terms of the Security Agreement, subject to the terms of the Security Trust and Intercreditor Deed.

Although the Bondholders will have the benefit of the relevant guarantees, it should be noted that, in respect of the Obligors, that none of them (other than SWS) own any significant assets other than the direct or indirect interest in the shares of the Issuer. There can thus be no assurance that creditors will be able to recover all amounts due to them in full.

8 Risks Relating to the Structure of a Particular Issue of Bonds

8.1 **Classes of Bonds** (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 4 (*Security, Priority and Relationship with Secured Creditors*))

Under the STID, payments under the Class A Bonds (whatever Sub-Class) rank in priority to payments of principal and interest due on all Sub-Classes of Class B Bonds. If, on any Interest Payment Date, prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer to pay accrued interest or principal on the Class B Bonds, the Issuer's liability to pay such accrued interest will be treated as not having fallen due.

There are no Class B Bonds currently outstanding and the Issuer may not issue Class B Bonds pursuant to the provisions of the Class B Deed Poll (see Chapter 4 "*Financing Structure*" under "*Class B Bonds*").

8.2 **Regulation and Reform of LIBOR, EURIBOR or other "benchmarks" Could Adversely Affect any Bonds Linked to such "benchmarks"** (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*))

LIBOR, EURIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective, while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or may have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to such a "benchmark".

Regulation (EU) 2016/1011 (the "**Benchmark Regulation**") came into force on 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016). The Benchmark Regulation could have a material impact on any Bonds linked to LIBOR, EURIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (among other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith.

An example of such benchmark reform was the announcement by the UK Financial Conduct Authority on 12 July 2018 that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation (the "**FCA Announcement**"). The FCA Announcement indicates that steps are being taken to transition from the LIBOR benchmark to alternative interest rate benchmarks following the FCA's announcement on 27 July 2017 that it will no longer compel banks to submit rates for the calculation of the LIBOR benchmark. The potential elimination of the LIBOR benchmark could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Bonds linked to LIBOR (see "*Floating Rate Bonds*" below). Any such consequences could have a material adverse effect on the value and return on any such Bonds.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks".

In the event that a benchmark is not available, the Issuer will appoint an Independent Adviser to determine a replacement benchmark in accordance with Condition 6(j)(i). The Issuer may, subject to providing notice and fulfilling certain conditions, make changes to the Conditions of the Bonds necessary to give effect to the replacement benchmark without requesting the consent of the Bondholders in accordance with Condition 6(j)(iv).

Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations could have a material adverse effect on the value of and return on any Bonds linked to a "benchmark".

8.3 **Floating Rate Bonds** (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*))

In the case of Floating Rate Bonds for which the rate of interest is determined by reference to LIBOR, EURIBOR or another "benchmark" rate or index, the terms and conditions of the Bonds provide that the applicable "benchmark" rate or index (as the case may be) shall be determined by reference to an identified screen page. In circumstances where such screen page (or any successor or replacement page) is not available, due to the applicable "benchmark" rate or index being discontinued, the terms and conditions of the Bonds provide for the rate of interest to be determined by the Principal Paying Agent by reference to quotations from certain reference banks. Where such quotations are not available, the rate of interest may revert to the rate of interest applicable as at the last preceding Interest Period before the applicable "benchmark" rate or index was discontinued, and, if the applicable "benchmark" rate or index is discontinued permanently, the same rate of interest will continue to be the rate of interest for each successive Interest Period until the maturities of the Bonds, so that the Bonds will effectively become fixed rate bonds utilising the last available applicable "benchmark" rate or index rate.

Uncertainty as to the continuation of LIBOR, EURIBOR or the applicable "benchmark" rate or index, the availability of quotes from reference banks, and the rate that would be applicable if the relevant "benchmark" rate or index is discontinued may adversely affect the value of and return on the Bonds.

8.4 Bonds that Reference SONIA (See Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*))

As disclosed in Chapter 8 "*Terms and Conditions of the Bonds*" under Condition 6 (*Interest and other Calculations*), the Issuer may issue Floating Rate Bonds referencing SONIA. Investors should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term).

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Bonds that reference a SONIA rate issued under this Programme. The Issuer may in the future also issue Bonds referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA referenced Bonds issued by it under the Programme. The development of Compounded Daily SONIA as interest reference rates for the Eurobond markets, as well as continued development of SONIA-based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Bonds issued under the Programme from time to time.

Furthermore, interest on Bonds which reference Compounded Daily SONIA is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Bonds which reference Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such Bonds, and some investors may be unable or unwilling to trade such Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Bonds. Further, in contrast to LIBOR-linked Bonds, if Bonds referencing Compounded Daily SONIA become due and payable as a result of an event of default, the rate of interest payable for the final Interest Period in respect of such Bonds shall only be determined immediately prior to the date on which the Bonds become due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Bonds referencing SONIA.

Since SONIA is a relatively new market index, Bonds linked to SONIA may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to SONIA, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of such Bonds may be lower than those of later issued indexed debt securities as a result. Further, if SONIA does not prove to be widely used in securities like the Bonds, the trading price of such Bonds linked to SONIA may be lower than those of Bonds linked to indices that are more widely used. Investors in such Bonds may not be able to sell such Bonds at all or may not be able to sell such Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market and may consequently suffer from increased pricing volatility and market risk. There can also be no guarantee that SONIA will not be discontinued or fundamentally altered in a manner that is significantly adverse to the interests of investors in Bonds referencing SONIA. If the manner in which SONIA is calculated is changed, that change may result in a reduction of the amount of interest payable on such Bonds and the trading prices of such Bonds.

8.5 Index Linked Bonds and Dual Currency Bonds (See Chapter 8 "*Terms and Conditions of the Bonds*" under Conditions 6(e) (*Indexed Bonds*) and 6(m) (*Rounding*))

The Issuer may issue Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Bonds are denominated. Potential investors should be aware that:

(i) the market price of such Bonds may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Bonds or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Prospective Bondholders should be aware that any one or more of these factors may have an adverse impact on the timing and/or amounts paid under the Bond.

8.6 Green Bonds and Social Bonds (See Chapter 9 "*Use and Estimated Net Amount of Proceeds*")

Prospective investors who intend to invest in any Green Bonds or Social Bonds (collectively, the "**Sustainable Bonds**") issued under the Programme must determine for themselves the relevance of the information in the relevant Final Terms (for example, regarding the use of proceeds) for the purpose of any investment in the Sustainable Bonds together with any other investigation such investors deem necessary. In particular, no assurance is or can be given to investors that the Green Eligible Categories, the Eligible Green Portfolio, the Social Eligible Categories or the Eligible Social Portfolio (each as defined in Chapter 9 "*Use and Estimated Net Amount of Proceeds*") will meet or continue to meet on an ongoing basis any or all investor expectations regarding investment in "green bond", "green", "social bond", "social" or equivalently-labelled investments.

In connection with the issue of Sustainable Bonds under the Programme, the Issuer and/or SWS may request consultants and/or institutions with recognised social and environmental expertise to issue an opinion (i) confirming that the Eligible Green Portfolio (as defined in Chapter 9 "*Use and Estimated Net Amount of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for green investments set out by the Green Bond Principles[4] and the Loan Market Association's Green Loan Principles; (ii) confirming that the Eligible Social Portfolio (as defined in Chapter 9 "*Use and Estimated Net Amount of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for social investments set out by the Social Bond Principles; and/or (iii) regarding the suitability of the Sustainable Bonds as an investment in connection with certain environmental and/or social investments (any such opinion, an "**External Review**").

Any External Review and the Southern Water Sustainable Finance Framework are not, nor shall they be deemed to be, incorporated in and/or form part of this Prospectus. An External Review and/or the Southern

[4] Please see International Capital Market Association in its publication titled "*Green Bond Principles, Voluntary Process Guidelines for Issuing Green Bonds*" for further information.

Water Sustainable Finance Framework may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Green Bonds, Eligible Green Portfolio, Social Bonds or Eligible Social Portfolio. An External Review and/or the Southern Water Sustainable Finance Framework would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. Prospective investors must determine for themselves the relevance of the Southern Water Sustainable Finance Framework, any External Review and/or the information contained therein and/or the provider of any External Review for the purpose of any investment in the Sustainable Bonds. In particular, no assurance or representation is or can be given to investors that an External Review and/or the Southern Water Sustainable Finance Framework will reflect any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. The Bondholders have no recourse against the provider of any External Review and/or the Southern Water Sustainable Finance Framework. In addition, although the Issuer may agree at the time of issue of any Sustainable Bonds to certain reporting and use of proceeds obligations it would not be an event of default under the Bonds if the Issuer fails to comply with such obligations. A withdrawal of an External Review and/or the Southern Water Sustainable Finance Framework may affect the value of such Sustainable Bonds and/or may have consequences for certain investors with portfolio mandates to invest in green and/or social assets.

Furthermore, it should be noted that no member of the SWS Financing Group, no Dealer nor any other person makes any representation as to the suitability of the Sustainable Bonds to fulfil environmental and/or social criteria required by prospective investors. No member of the SWS Financing Group is responsible for any third party assessment of the Green Eligible Categories or Social Eligible Categories. Nor is any Dealer responsible for (i) any assessment of the Green Eligible Categories, or (ii) any verification of whether the Eligible Green Investments fall within the Green Eligible Categories, or (iii) any assessment of the Social Eligible Categories, or (iv) any verification of whether the Eligible Social Investments fall within the Social Eligible Categories, or (v) the monitoring of the use of proceeds. Investors should refer to the SWS website (https://www.southernwater.co.uk/media/3340/5051_sustainablefinancing_framework_2020_v7.pdf), the Southern Water Sustainable Finance Framework and the relevant External Review for further information. The External Review provider(s) have been appointed by SWS and the Issuer.

It should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or "social" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or "social" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Green Investment or any Eligible Social Portfolio will meet any or all investor expectations regarding such "green", "sustainable" or "social" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Investment or any Eligible Social Investment.

CHAPTER 4
FINANCING STRUCTURE

History and Background

Greensands Holdings Limited is the ultimate parent company of the SWS Financing Group, and there are no minority shareholdings within this group of companies.

On 15 October 2007, SWC was acquired by Greensands Investments Limited.

Greensands Investments Limited is indirectly owned by a consortium of investors including:

- IIF Int'l SW UK Investment Limited (an independent infrastructure investments company advised by J.P. Morgan Investment Management Inc.), having a 31.24 per cent. equity stake in the Greensands Companies;
- UBS Asset Management, a large-scale global asset manager, offering investment capabilities across all major traditional and alternative asset classes and managed by Phildrew Nominees Limited, having a 21.92 per cent. equity stake in the Greensands Companies);
- Hermes Infrastructure funds (part of Hermes Investment Management) is a specialist infrastructure manager operating a diversified, well-established, UK-focused shared investment platform. Hermes Infrastructure is one of the UK's largest direct investors and has a 21.0 per cent. equity stake;
- Whitehelm Capital Shareholding managed by Whitehelm Capital on behalf of Motor Trades Association of Australia and Prime superannuation funds with a combined shareholding of 7.75 per cent. (but individual shareholdings of less than 5 per cent.);
- Simcoe Yeoman Water Limited advised by Caledon, having a 6.63 per cent. equity stake; and
- Other minor shareholdings held by infrastructure investment companies, having a 9.5 per cent. equity stake.

The remainder of the shares in Greensands Holdings Limited is held by investors, none of which has an individual equity stake of greater than 5 per cent.

SWC, a wholly-owned subsidiary within the Greensands Holdings Limited group of companies, holds 100 per cent. of the issued ordinary share capital of SWI. SWC also owns the Class A1 Preference Shares and Class B Preference Shares.

Immediately before the first issue of Bonds on the Initial Issue Date, SWI implemented a corporate reorganisation to facilitate the creation of the SWS Financing Group within the Group. This involved the Issuer transferring its shares in its then immediate subsidiary, SWSG, to SWI; SWI transferring its shares in the Issuer to SWS; and SWS assuming certain existing intra-group indebtedness that SWSG incurred to the Issuer in connection with the First Aqua Acquisition.

The SWS Financing Group consists of SWSGH, SWSH, SWS, the Issuer and the Pension Companies (SWPT acts as trustee of the SWS Pension Schemes in which SWS participates. SWEPST no longer serves a function). The sole purpose for the creation of the SWS Financing Group was to facilitate the refinancing and future financing of the operating and capital requirements of SWS through the issuance of Bonds, other instruments of financial indebtedness and credit facilities, from time to time, incurred by the Issuer and SWS. The Issuer may on-lend the proceeds of Financial Indebtedness incurred by it to SWS pursuant to the Issuer/SWS Loan Agreements.

The Initial Issue Date

On the Initial Issue Date, the Issuer issued the following Sub-Classes of Bonds:

(i) £350,000,000 Series 1 Sub-Class A1 Wrapped 6.192 per cent. Bonds due March 2029;

(ii) £150,000,000 Series 1 Sub-Class A2a Wrapped Index-Linked Bonds due March 2034;

(iii) £35,000,000 Series 1 Sub-Class A2b Wrapped Limited Index Bonds due March 2034;

(iv) U.S.$483,000,000 Series 1 Sub-Class A3 Wrapped Floating Rate Bonds due March 2007;

(v) £350,000,000 Series 1 Sub-Class A4 Unwrapped 6.640 per cent. Bonds due March 2026;

(vi) £150,000,000 Series 1 Sub-Class A5 Unwrapped Index-Linked Bonds due March 2023;

(vii) £120,000,000 Series 1 Sub-Class A6 Unwrapped Step-Up Floating Rate Bonds due March 2013; and

(viii) £250,000,000 Series 1 Sub-Class B1 Unwrapped Step-Up Fixed/Floating Rate Bonds due March 2038

(together, the "**Series 1 Bonds**").

The Issuer applied the proceeds of the Series 1 Bonds, the Mezzanine Facilities and the Initial Term Facility to settle certain termination payments under existing hedging contracts terminated on or prior to the Initial Issue Date and to make advances to SWS under the Initial Issuer/SWS Loan Agreement to enable SWS to repay on the Initial Issue Date all existing intercompany indebtedness owed by it to the Issuer. The Issuer applied the repayment proceeds of the existing intercompany indebtedness owed to it by SWS among other things: (i) to repay its then existing indebtedness to SWI, (ii) to pay all amounts outstanding under the term facility of the Bridge Facility Agreement and (iii) to meet certain transaction fees and expenses.

SWS applied the proceeds of its issue of SWS Preference Shares on the Initial Issue Date (together with any moneys received under the Initial Issuer/SWS Loan Agreement and not required to be applied in repayment of existing indebtedness to the Issuer): (i) to discharge the obligations of SWS under the Bridge Facility Agreement; (ii) to fund the Capex Reserve Account and its O&M Reserve Account; (iii) to make an initial payment to the Debt Service Payment Account; (iv) to pay certain transaction fees and expenses; and (v) for general corporate purposes.

The advances made by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement on the Initial Issue Date reflect the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of Series 1 Bonds and each borrowing under the Mezzanine Facility Agreements and the Initial Term Facility on the Initial Issue Date and, to the extent that such borrowing was hedged under a Hedging Agreement, the terms of such Hedging Agreement.

The U.S.$483,000,000 Series 1 Sub-Class A3 Wrapped Floating Rate Bonds due March 2007 and the £120,000,000 Series 1 Sub-Class A6 Unwrapped Step-Up Floating Rate Bonds due March 2013 were redeemed on 30 June 2005 (the "**2005 Series 1 Redeemed Bonds**").

The £250,000,000 Series 1 Sub-Class B1 Unwrapped Step-Up Fixed/Floating Rate Bonds due March 2038 were redeemed in full on 31 March 2014 (the "**2014 Series 1 Redeemed Bonds**"). SWS prepaid the advances made by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement corresponding to the 2014 Series 1 Redeemed Bonds.

The Second Issue Date

On the Second Issue Date, Artesian advanced the Second Artesian Term Facility to the Issuer.

The advance made by the Issuer to SWS under the Second Issuer/SWS Loan Agreement reflects the corresponding amount and terms of borrowing by the Issuer under the Second Artesian Term Facility, the repayment date being 30 September 2032.

The Third Issue Date

On the Third Issue Date, the Issuer issued the following Sub-Classes of Bonds:

(i) £350,000,000 Series 2 Sub-Class A7 Wrapped 5.00 per cent. Bonds due March 2021; and

(ii) £150,000,000 Series 2 Sub-Class A8 Wrapped 5.00 per cent. Bonds due March 2041,

(together, the "**Series 2 Bonds**").

The advances made by the Issuer to SWS under the Third Issuer/SWS Loan Agreement reflect the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of the Series 2 Bonds. SWS applied the advances made by the Issuer under the Third Issuer/SWS Loan Agreement to, among other things, prepay the advances made by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement corresponding to the 2005 Series 1 Redeemed Bonds.

The Fourth Issue Date

On the Fourth Issue Date, the Issuer issued the £200,000,000 Series 3 Sub-Class A9 4.50 per cent. Wrapped Bonds due 2052 (the "**Series 3 Bonds**").

The advances made by the Issuer to SWS under the Fourth Issuer/SWS Loan Agreement reflect the corresponding amount and terms of borrowing by the Issuer of the Series 3 Bonds. SWS applied the advances made by the Issuer under the Fourth Issuer/SWS Loan Agreement to general corporate purposes.

The Fifth Issue Date

On the Fifth Issue Date, the Issuer issued the £300,000,000 Series 4 Sub-Class A10 Wrapped 5.125 per cent. Bonds due September 2056 (the "**Series 4 Bonds**").

The Advances made by the Issuer to SWS under the Fifth Issuer/SWS Loan Agreement reflect the corresponding amount and terms of borrowing by the Issuer of the Series 4 Bonds. SWS applied the advances made by the Issuer under the Fifth Issuer/SWS Loan Agreement to general corporate purposes.

The Sixth Issue Date

On the Sixth Issue Date, the Issuer issued the £300,000,000 Series 5 Sub-Class A11 Unwrapped 6.125 per cent. Bonds due March 2019 (the "**Series 5 Bonds**").

The Advances made by the Issuer to SWS under the Sixth Issuer/SWS Loan Agreement reflect the corresponding amount and terms of borrowing by the Issuer of the Series 5 Bonds. SWS applied the advances made by the Issuer under the Sixth Issuer/SWS Loan Agreement to general corporate purposes.

The Series 5 Bonds were redeemed in full on 31 March 2019 (the "**Series 5 Redeemed Bonds**"). SWS prepaid the advances made by the Issuer to SWS under the Sixth Issuer/SWS Loan Agreement corresponding to the Series 5 Redeemed Bonds.

FIGURE 1 – OWNERSHIP STRUCTURE

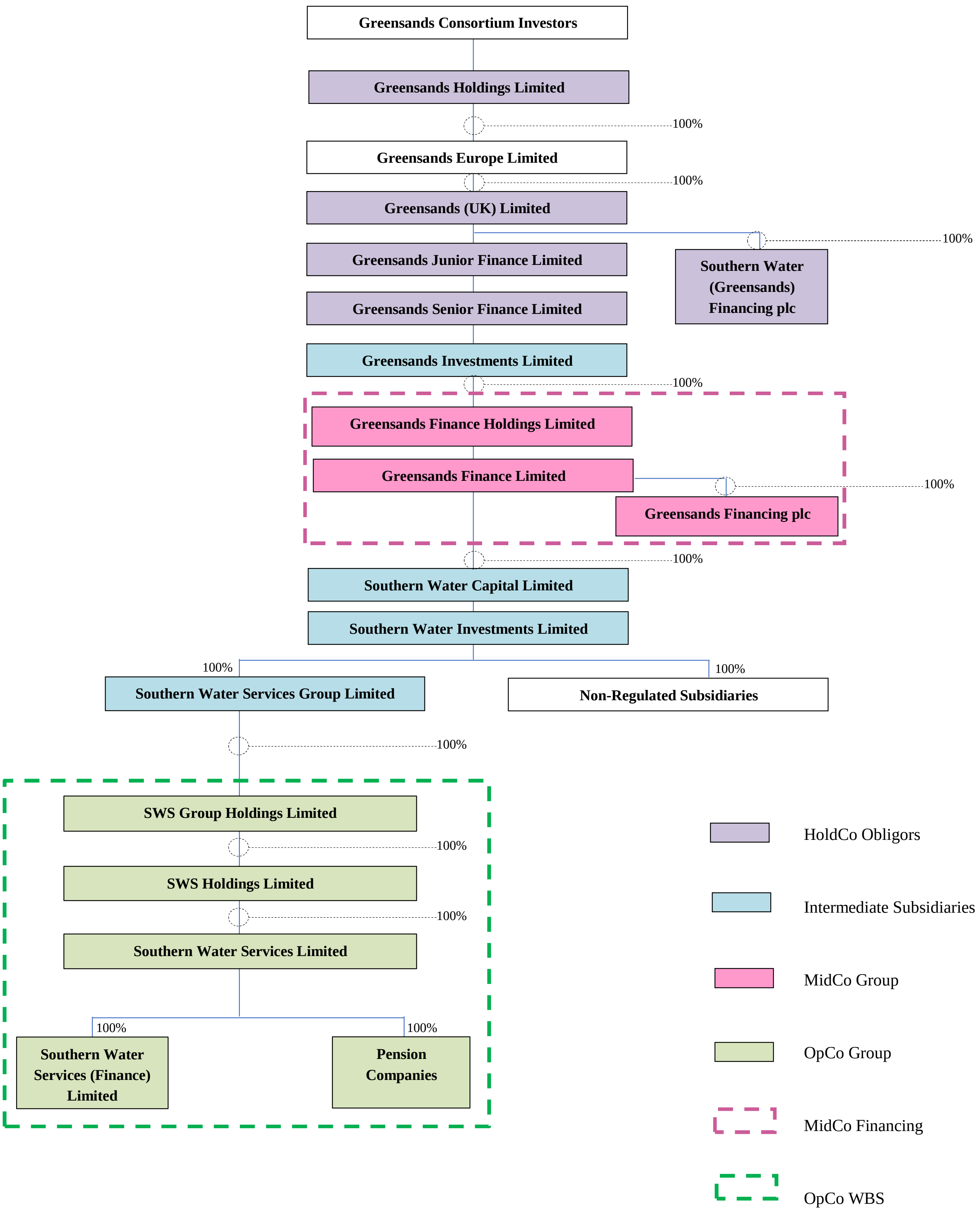

Figure 1 illustrates the simplified ownership structure of the SWS Financing Group and provides an overview of the ownership structure of the SWS Financing Group as follows:

- The Pension Companies and the Issuer are wholly-owned subsidiaries of SWS.
- The entire issued ordinary share capital of SWS is held by SWSH, whose entire issued share capital is held by SWSGH.
- SWSGH is a wholly-owned subsidiary of Southern Water Services Group Limited ("**SWSG**"), which is a wholly-owned subsidiary of SWI.
- SWI is a wholly-owned subsidiary of SWC.
- The Greensands consortium investors, who together own the entire issued share capital of Greensands Holdings Limited, are described above.
- Each of SWSGH and SWSH is a special purpose vehicle incorporated to be the holding company of SWS and the Issuer and (in the case of SWSGH) SWSH, to enter into the Finance Documents and in particular to grant security over the shares of its respective subsidiary pursuant to the Security Agreement.

FIGURE 2 – PROGRAMME STRUCTURE

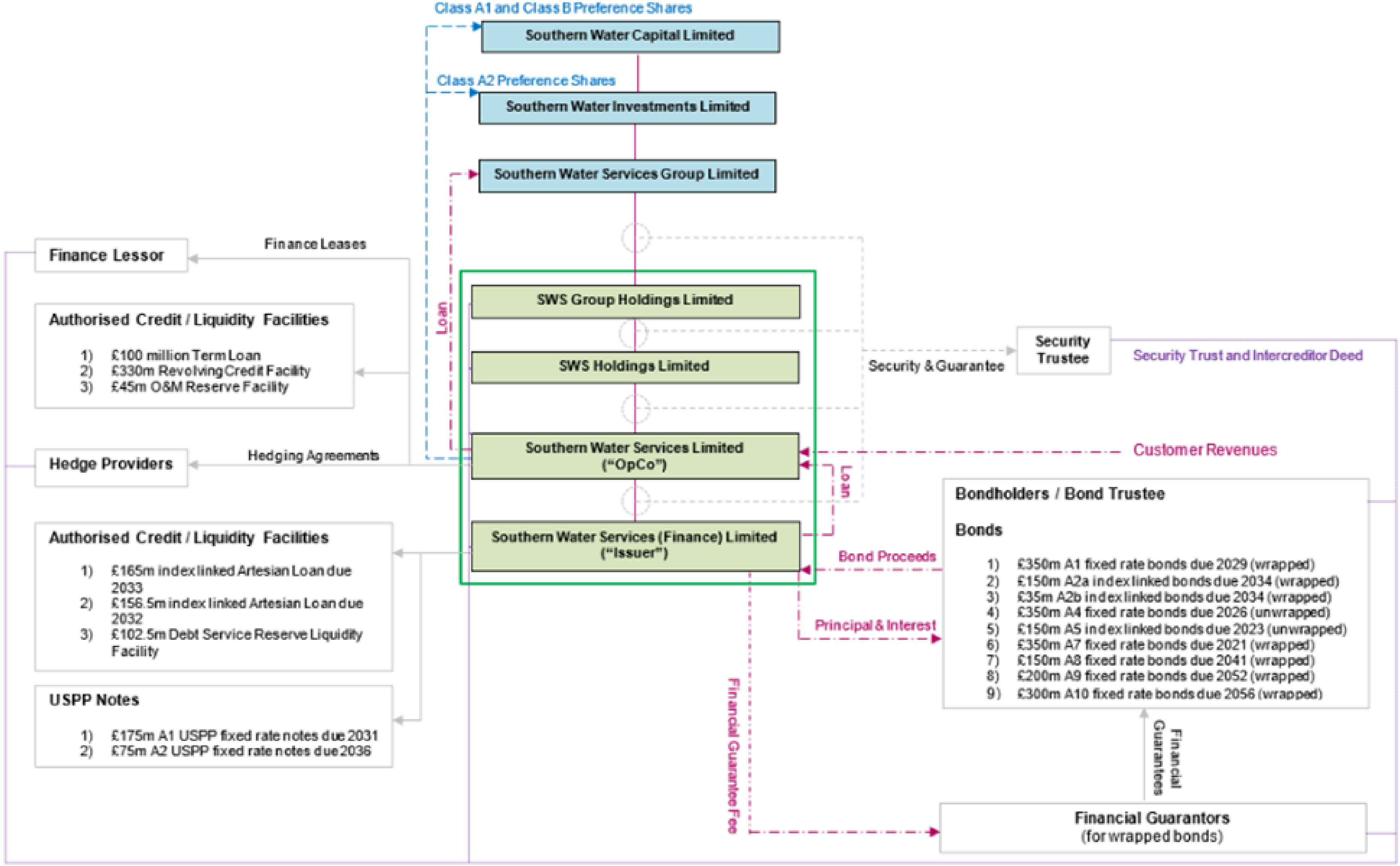

Figure 2 provides an overview of the Programme, as follows:

- The Issuer may, under the Programme, issue Class A Unwrapped Bonds and Class B Unwrapped Bonds. On the Initial Issue Date, the Issuer issued the Series 1 Bonds, on the Third Issue Date the Issuer issued the Series 2 Bonds, on the Fourth Issue Date the Issuer issued the Series 3 Bonds, on the Fifth Issue Date the Issuer issued the Series 4 Bonds and on the Sixth Issue Date the Issuer issued the Series 5 Bonds.
- The Issuer and/or SWS may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of SWS, to service and repay the SWS Financing Group's indebtedness and for the SWS Financing Group's general corporate purposes.
    - On the Initial Issue Date, the Issuer (in its capacity as the Issuer) borrowed the Initial Term Facility.
    - In July 2004, Artesian advanced the Second Artesian Term Facility to the Issuer (in its capacity as the Issuer).
    - On 26 November 2014, SWS entered into a £350,000,000 Revolving Facility Agreement with Abbey National Treasury Plc (t/a Santander Global Banking and Markets), Barclays Bank Plc, BNP Paribas, London Branch, Commonwealth Bank of Australia, HSBC Bank plc, J.P. Morgan Limited and The Royal Bank of Scotland plc (the "**Previous RCF**"). The Previous RCF Agreement had a term of 60 months and was accordingly amended and restated by a £330,000,000 Revolving Facility Agreement on 18 March 2019 (the "**Existing RCF Agreement**") which, amongst other things, extended the term for another 60 months.
    - On 16 July 2015, SWS entered into a £100,000,000 finance agreement with the European Investment Bank as part of its regulatory investment programme for AMP6.
    - On 25 October 2017, the Issuer entered into a term facility agreement with National Australia Bank Limited (the "**NAB Facility Agreement**"). This facility was repaid in full on 3 December 2018.
    - On 11 December 2019, SWS entered into the 2019 Bridge Facility Agreement with Banco Santander S.A., London Branch and National Westminster Bank Plc to which Lloyds Bank plc acceded on 8 January 2020.

See Chapter 7 "Summary of the Financing Agreements" under "Additional Resources Available".

- The Issuer may additionally borrow money from O&M Reserve Facility Providers under O&M Reserve Facility Agreements for funding the operating and maintenance expenditure of SWS.
- The Issuer, on the Initial Issue Date, borrowed the Senior Mezzanine Facility from the Initial Mezzanine Facility Providers. The Senior Mezzanine Facility has been fully repaid.
- The Class A1 Preference Shares and the Class B Preference Shares are owned by SWC.
- Finance Lessors may provide financing of equipment to SWS.
- The terms under which the Issuer and/or SWS may incur financial indebtedness, including issuing Bonds under the Programme, are set out in the CTA.
- The Issuer is required to on-lend to SWS the proceeds of each Series of Bonds and each advance to the Issuer under each Authorised Credit Facility (other than any DSR Liquidity Facility – see below), pursuant to Issuer/SWS Loan Agreements. All indebtedness owing by SWS to the Issuer under each

Issuer/SWS Loan Agreement will reflect the corresponding amount and terms of borrowing by the Issuer under the relevant Sub-Class of Bonds or the relevant Authorised Credit Facility. Repayment by SWS of this indebtedness to the Issuer is capable of producing funds to service any payments due and payable on the Bonds and any relevant Authorised Credit Facilities.

- The Issuer (or SWS in respect of Interest Rate hedging) is required to hedge its interest rate and currency exposure under the Bonds by entering into interest and currency swap agreements and other hedging arrangements with Hedge Counterparties in accordance with an agreed hedging policy included in the CTA. Where the Issuer is the hedge counterparty under the relevant hedging agreement, the economic effect of the hedging will be passed on to SWS through the relevant Issuer/SWS Loan Agreement.
- The Issuer's obligations to repay principal and pay interest on the Bonds and under each Authorised Credit Facility to which it is party as borrower are intended to be met primarily from the payments of principal and interest received from SWS under the Issuer/SWS Loan Agreements. The Initial Issuer/SWS Loan Agreement, the Second Issuer/SWS Loan Agreement, the Third Issuer/SWS Loan Agreement, the Fourth Issuer/SWS Loan Agreement, the Fifth Issuer/SWS Loan Agreement and the Sixth Issuer/SWS Loan Agreement provide, and each other Issuer/SWS Loan Agreement will provide, for payments to become due from SWS to the Issuer on dates and in amounts that match the obligations of the Issuer to its various financiers under its financial arrangements plus a small profit margin.
- The Issuer may draw under any DSR Liquidity Facility provided to meet any shortfall in the amounts available to it to meet interest payments on the Class A Bonds and the Class B Bonds and certain other payments ranking in priority to or *pari passu* with the Class A Bonds and Class B Bonds of such Series (excluding any principal repayments on Class A Bonds and any principal repayments and Subordinated Coupon Amounts on Class B Bonds).
- The respective obligations of SWS and the Issuer to its Secured Creditors are guaranteed by each other in favour of the Security Trustee. SWSH and SWSGH in turn guarantee in favour of the Security Trustee the respective obligations of SWS and the Issuer and the obligations of each other.
- The obligations of each of SWS, the Issuer, SWSH and SWSGH are secured in favour of the Security Trustee under the terms of the Security Agreement.
- The guarantees and security granted by the Obligors are held by the Security Trustee for itself and on behalf of the Secured Creditors under the terms of the STID, which regulates the rights and claims of the Secured Creditors against the Obligors and the duties and discretions of the Security Trustee.

Class B Bonds

On 23 January 2019, the Issuer launched a tender offer and consent solicitation process to invite: (i) the holders of the then outstanding Sub-Class B2 £250,000,000 4.5 per cent. Class B Fixed/Floating Rating Bonds due 31 March 2038 to tender any and all of their Bonds for purchase by the Issuer for cash (the "**Tender Offer**"); and (ii) such holders to approve certain modifications to the applicable terms and conditions of the Bonds to provide for the Issuer to mandatorily purchase all of such Class B Bonds that are not accepted for purchaser to the tender offer (the "**Purchase Proposal**"). The purpose of the Tender Offer and the Purchase Proposal was to utilise available liquidity to reduce the Issuer's net gearing level and improve its financial resilience. Upon conclusion of the tender offer and consent solicitation process in February 2019, all of the then outstanding Class B Bonds were purchased and cancelled and as at the date of this Prospectus, there are no outstanding Class B Bonds in issue. In addition, on 19 November 2018, the Issuer entered into a deed poll (the "**Class B Deed Poll**") to undertake to the Security Trustee (for the benefit of all of the Secured Creditors) that the Issuer will not issue any new Class B Bonds.

Substitution of the Issuer

There has been ongoing press coverage on UK water companies using financial subsidiaries incorporated in the Cayman Islands, which has led to the misconception that the use of Cayman Islands-incorporated financing subsidiaries is for tax avoidance schemes[5]. Although the Cayman Islands-incorporated Issuer is in fact managed and controlled in the UK and is solely UK tax resident, SWS is keen to respond to public concern and to continue improving the transparency of its business to sustain the trust and confidence of its customers. On 13 April 2018, SWS announced its intention to working towards closing the Cayman Islands-incorporated Issuer from its corporate structure in due course. A STID Proposal will be required to seek consent from the Secured Creditors to achieve this objective, with the aim of removing the Issuer from the SWS Financing Group and replacing it with one or more companies incorporated in England. The STID provides that the Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies (see *Chapter 7* "*Summary of the Financing Agreements*" – "*Security Trust and Intercreditor Deed*" – "*Substitution of the Issuer*"). Condition 3(d) "*Substitution of the Issuer with the UK Issuer*" further provides that upon the delivery of a Deed of Substitution Notice (as defined below) to the Bond Trustee, the Issuer shall be immediately, automatically and irrevocably released and relieved of all of its obligations under the Substituted Bonds, the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds (but without prejudice to any obligations which may have accrued prior to that time) and it shall be immediately, automatically and irrevocably succeeded by the UK Issuer.

As further described in Condition 3(d), a Deed of Substitution Notice will be a written notice signed by two Directors of the Issuer or two Directors of a public limited company incorporated in England and Wales as a subsidiary of SWS (the "**UK Issuer**" and, upon delivery to the Bond Trustee of a Deed of Release Notice, the "**Issuer**" in respect of the Substituted Bonds) and such notice shall certify to the Bond Trustee that:

(i) a Substitution Event (as defined below) has occurred;

(ii) the UK Issuer has obtained all necessary governmental and regulatory approvals and consents necessary for its assumption of liability in place of the Issuer and its performance of the Issuer's obligations under the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds;

(iii) such approvals and consents are at the time of substitution in full force and effect;

(iv) at least two of the Rating Agencies have confirmed in writing that the substitution of the UK Issuer will not result in a downgrading of the then current credit rating of such Rating Agencies applicable to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds or the current shadow credit rating of the Wrapped Bonds; and

(v) the UK Issuer is a single purpose company similar to, and with like constitution as, and having substantially the same restrictions and prohibitions on its activities and operations as the Issuer and satisfies the SPV Criteria.

A Substitution Event shall be deemed to occur upon: (x) the substitution of the UK Issuer in place of the Issuer as the issuer, borrower and/or principal debtor in respect of the Class A Bonds (other than the Substituted

[5] See for example "Gove warns water companies over use of offshore tax structures – UK environment secretary threatens legislation if companies do not behave responsibly": https://www.ft.com/content/28f18778-f91c-11e7-a492-2c9be7f3120a or https://www.theguardian.com/business/2012/nov/10/water-companies-tax or https://www.ft.com/content/5413ebf8-24f1-11e7-8691-d5f7e0cd0a16?mhq5j=e7

Bonds), PP Finance Documents and/or DSRLF Finance Documents actually occurring pursuant to a Substitution Proposal and (y) the assignment by the Issuer of the IBLAs to the UK Issuer actually occurring. Any capitalised term used but not defined in the definition of Substitution Event shall have the meaning given to that term in the Master Definitions Agreement.

There is no assurance that a Substitution Event will occur, and accordingly there is no assurance that the Issuer will be substituted in place of the UK Issuer.

As a result of management's intention to transfer the assets and liabilities of the Issuer to a UK registered company within the Group, the Issuer's auditors, when preparing the audited financial statements of the Issuer in respect of the year ended 31 March 2019, included an emphasis of matter noting that the financial statements had not been prepared on a going concern basis due to management's intention to transfer the assets and liabilities of the Issuer to a UK registered company within the Group. The Auditors further noted that this did not necessitate adjustments to the assets and liabilities and these were valued under the historical cost convention, except for the revaluation of financial instruments which were measured at their fair value at the end of each reporting period. Please see the full extract of the emphasis of matter in Annex 1 of this Prospectus.

CHAPTER 5
DESCRIPTION OF THE SWS FINANCING GROUP

Introduction

SWS took over its functions as a successor to the former Southern Water Authority in respect of water supply and wastewater services on 1 September 1989 and its principal activity is the provision of water and wastewater services.

It operates under a licence which has a 25-year notice period (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Termination of a Licence*"). The main provisions of the Licence are described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Licences*".

A consolidated working copy of the Licence, including all amendments made up to (and including) 16 January 2019, can be viewed on Ofwat's website (https://www.ofwat.gov.uk/wp-content/uploads/2019/01/Southern-Water-Consolidated-Appointment-amended-Jan-2019.pdf). Additionally, there have been two further licence modifications made since January 2019 and copies of these modifications can also be viewed on Ofwat's website (https://www.ofwat.gov.uk/regulated-companies/ofwat-industry-overview/licences/licence-amendments/).

SWS is the eighth largest water and wastewater services company in England and Wales, based on a turnover comparison between water companies' publicly available accounts.

For the year ended 31 March 2019, SWS's operating profit before its regulatory settlement was £256.4 million, on turnover of £876.3 million. As at 31 March 2019, the average number of persons employed by SWS was 2,327. SWS's RCV was £5,034.6 million as at 31 March 2019.[6] The interim accounts to 30 September 2019 show an operating profit of £120.5 million on turnover of £439.9 million.

SWS was incorporated under the Companies Act 1985 and registered in England and Wales on 1 April 1989 with limited liability under number 02366670. The registered office of SWS is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWS is a wholly-owned direct subsidiary of SWS Holdings Limited and its authorised share capital is £46,050,000 divided into 46,050,000 ordinary shares as at 31 March 2019. As at 31 March 2019, 56,000 ordinary shares have been issued of which all have been fully paid up. The only subsidiaries of SWS are the Issuer and the Pension Companies.[7]

[6] Accurate per pg. 58 of the 2018/2019 Annual Performance Report – arrived at by adding Net Debt and Regulated Equity.

[7] Accurate per pg. 208 of the 2019 Annual Report, published in July 2019.

The Area Served*

* There are some small areas which are served by small Water Supply Licencees which cannot be shown on this map due to scale

SWS operates in an area of approximately 10,550 km^2 in the counties of Kent, East and West Sussex, Hampshire and the Isle of Wight, and small parts of Wiltshire, Berkshire and Surrey (the "**Region**").

Regulation

SWS is principally regulated under the provisions of the WIA. The Secretary of State for Environment, Food and Rural Affairs (the "**EFR Secretary of State**") and the Water Services Regulation Authority ("**WSRA**") are the principal regulators of SWS. (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" for details on the regulation of Regulated Companies (as defined therein) including SWS).

SWS's area of appointments can be varied in certain circumstances by way of, for example, a so-called "inset" appointment (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Licences – Termination of a Licence*").

The inset appointments in SWS's original area of appointment are:

(I) in respect of Tidworth Army Camp ("**Tidworth**"), which is on the boundaries of both SWS's and Wessex Water Services Limited's areas of appointment. Operation of Tidworth's water supply and wastewater services, previously undertaken by the Ministry of Defence, was put out to tender in 1996 and the tender was won by Thames Water Utilities Limited. A further inset appointment was then granted for the same site in June 2009 to Veolia Water Projects.

(II) Albion Water was appointed on 1 May 2009 to be the sewerage undertaker for a site at Knowle Village, near Fareham, Hampshire.

(III) SSE Water was appointed on 17 August 2010 to be the statutory sewerage undertaker for a new development at Graylingwell Park, Chichester.

(IV) SSE Water was appointed on 16 December 2011 to be the statutory sewerage undertaker for a new development at Abbotswood, Romsey.

(V) In June 2019, SSE Water transferred its entire water business to Leep Utilities (Holdings) Ltd.

SWS's Strategy and vision for AMP7 and beyond

Water is essential to every aspect of people's lives; however, the water supply may face big challenges. The population of the South East is growing fast, and climate change may bring droughts and more extreme weather. It may be a future of more people needing water and wastewater services, with less water to go around. The vital nature of water, and the need to keep it flowing far into the future is what SWS reflected in its AMP7 plan.

To help create the AMP7 plan, SWS has contacted hundreds of thousands of its current customers, businesses, independent experts, regulators, and many young people who might be customers themselves one day. Their expectations were clear. SWS should:

(a) focus on the basics such as customer service, water quality and affordable bills;

(b) make sure it uses water wisely (and help its customers to do the same);

(c) protect the environment; and

(d) make sure SWS is fit for whatever the future might bring.

Alongside what SWS does, stakeholders also care deeply about how SWS does it. The stakeholders want SWS to deliver great services with good communication, to work together with other organisations and with its customers, and to use the latest smart technology to keep the water flowing.

Becoming brilliant at the basics

Improvements to the water network include hundreds of kilometres of new water mains, and refurbished water treatment works. This will cut supply disruptions, while maintaining the same clean, safe water that the customers need. SWS is working towards an easy customer experience, with simple and personalised tariffs and payment plans, hassle-free ways to get in touch, and a dedicated SWS team to quickly resolve customer questions or complaints. SWS is also overhauling its online services and sharing more regular updates when there is a planned (or unplanned) interruption to the water supply.

Taking care of water

SWS is taking the lead in looking after the South East’s most precious resource, water. SWS is reducing the amount of water lost to leakage with large investments to upgrade and replace its water mains, and by using advanced tech like drones and satellites to spot leaks early. SWS plans to replace 30 smaller reservoirs with eight new ones and invest in more automation around the network. SWS is working with local authorities and developers to encourage the building of new homes that use the latest water-efficiency technology. And SWS’s Target 100 programme will help customers in the region to work together to cut the amount of water used and SWS aims to significantly reduce the amount of water used on a daily basis by their customers by 2040.

Looking after the environment

Through the Drainage 2030 programme, SWS aims to completely transform its sewer network to make it fit for the future, with smart technologies that can predict and prevent sewer blockages and burst pipes. SWS will also promote the use of more soakaways and water butts to divert rainwater from the sewers during heavy rain, and the creation of more green spaces in towns and cities. Through the Catchment First programme, SWS is working with stakeholders, farmers and landowners to create a safer, more reliable water supply by considering whole catchments. SWS is working with farmers to reduce pesticides and nitrates from fertilisers entering streams and rivers, as it simplifies the water treatment process at SWS’s sites. SWS is also working with local authorities and developers to promote sustainable drainage systems that safely remove surface water during heavy rain.

Being ready for the future

SWS is starting to work with local authorities to turn its wastewater treatment sites into resource hubs that can not only treat wastewater to the highest standard, but also generate heat during treatment to warm local facilities like swimming pools.

Innovation

SWS's innovation capability, Bluewave, was established to create value for our business, customers and communities by enabling new ideas, technologies and ways of working. Based out of the company’s Brighton office, the team supports all research, development and innovation across SWS.

Water Supply

Water Supply – Approximate Base Statistics 2018/19[8]

Description	Value
Population served	2,548,794
Properties served	1,123,417
Domestic premises	1,062,924
Business/non-domestic premises	60,493
Void account premises	32,694

8 Accurate per the 2019 Annual Report published in July 2019.

Description	Value
Length of mains	13,929.5km
Number of water supply works	84
Number of dams and impounding reservoirs	3
Number of service reservoirs	205
Average daily supply (million litres)	558.75 Ml/d
from groundwater	66.7%
from rivers	29.2%
from reservoirs	4.1%

Of the average supply of 558.75 million litres of water per day during the year 1 April 2018 to 31 March 2019, approximately 62 per cent. was supplied for domestic use and approximately 38 per cent. was supplied for non-domestic and industrial use.

In addition, SWS supplied approximately 30.4 million litres of water a day in aggregate (representing approximately 5.4 per cent. of the total water supplied by SWS) to South East Water, Wessex Water and Affinity Water (formerly Veolia Water South East which was Folkestone and Dover Water Services) under bulk supply agreements.

As at 31 March 2019, approximately 901,477 households, or approximately 87.5 per cent. of total households supplied by SWS, had their water measured by meters, compared with 42.5 per cent. of households in 2010 to 2011.

All water supplied is treated at water supply works before distribution. Water is treated at 84 water supply works and is distributed to approximately 1.1 million premises through a network of approximately 13,929.5km of water mains. SWS treats water from 93 separate sources in the Region with approximately 67 per cent. of water supplied coming from groundwater sources (predominantly chalk), approximately 29 per cent. coming from rivers, and the remaining approximately 4 per cent. being abstracted from reservoirs. Water quality is monitored by SWS through a programme of regular sampling and analysis. Sampling of water supplies is carried out in accordance with the Water Supply (Water Quality) Regulations 2016 (as amended) which sets out the number of samples to be taken depending on the volume of water produced or the population served. The DWI monitors our compliance using the Compliance Risk Index ("**CRI**"). In 2018 our CRI score was 11.59, while the national score for England was 3.86. For 2019 Southern Water's CRI is predicted to have improved to 6.66. A lower CRI score is indicative of better performance against this metric.

SWS operates a quality assurance system approved to British Standards Institution ("**BSI**") standard ISO 9001. SWS has approved procedures for the production of water up to the supply point from service reservoirs. These are used to monitor the daily activities which control water quality. These procedures are audited by the BSI on a six-monthly basis.

Water quality events are reported to the DWI, as required in The Water Industry (Suppliers' Information) Direction. The sum of the DWI's assessment of these events is recorded annually as the Event Risk Index ("**ERI**"). In 2018 Southern's ERI was 5,499, compared with an average of 783, in 2019 this is predicted to have improved to 1,438. A lower ERI score is indicative of better performance against this metric.

At four of the six water supply works that are supplied by river sources, there are underground sources or storage facilities that can be utilised to help provide continuity of supply if the river intake is closed due to a temporary pollution hazard.

SWS have agreed with the EA to take less water from its surface water sources on the River Test and River Itchen in Hampshire in dry years. As a result, it has a large supply-demand deficit to resolve in a Design Drought Scenario and has proposed a series of interventions to recover this deficit in the SWS WRMP by 2029-30. The preferred strategy includes a desalination plant at Fawley, a water recycling plant on the Isle of Wight and new imports of water from South West Water and Portsmouth Water, the latter of which will be facilitated by the development of a new reservoir at Havant Thicket. An enhanced pipeline grid with be required to move water from these new sources of water to areas of demand. In addition, the company will look to make best use of available supplies by prioritising implementation of its ambitious demand management activities in the area including leakage reduction and Target 100. Catchment management forms another important strand to the strategy to ensure raw water supplies are protected and enhancements are made to improve the environmental resilience of the chalk rivers in the region. SWS will be seeking to demonstrate the reliability and environmental acceptability of the options in the preferred plan as well as a number of strategic alternative schemes including the option of recycling wastewater via the River Itchen. Southern Water has a best endeavours obligation to resolve the supply-demand water resources deficit by 2027, and is working collaboratively with the EA, DWI, Ofwat and other UK water companies through the RAPID group (Regulators' Alliance for Progressing Infrastructure Development) to develop the most appropriate interventions to meet the future water supply deficit throughout the UK. Negative consequences may arise in the event that Southern Water is unable to satisfy its obligations by 2027 (or such later date as may be agreed with the relevant parties), including that its operational expenditure in relation to the SWS WRMP may be non-recoverable unless the EA, DWI and Ofwat agree to accommodate such delays. Any non-recoverable expenditure would be significant.

The EA have raised the possibility of taking enforcement action against SWS regarding abstraction compliance. They have also raised concerns over SWS's abstraction metering. SWS has responded to these concerns by visiting sites to carry out calibration and verification and now has in place an action plan of improvements. Abstraction compliance has been improving over the last 12 months.

SWS owns, operates and maintains three impounding reservoirs which have a total storage capacity of approximately 41,330 million litres, the largest, Bewl Water Reservoir (Kent), having a gross storage capacity of 31,000 million litres.

Between April 2020 and March 2025, SWS will be investing significantly in both treatment works and the water supply network. Major treatment works upgrades will be completed at three of the largest surface water treatment works and a nitrate removal plant will also be installed to treat the water from 14 of SWS's ground water works. SWS is also planning to replace a considerable amount of its water mains to remove lead pipes and to reduce leakage. Significant investment will also be carried out at its surface water reservoirs to increase the emergency drawdown rates in line with revised safety guidelines.

SoSI

The Security of Supply Index ("**SoSI**") is an EA measure of companies' water supply security. It describes whether a company is meeting its target headroom (surplus of supply over demand) under particular dry year conditions. A company meeting its target headroom for all customers will have an index of 100. In 2018/19 the SOSI was 98 due to high outturn demand in the Hampshire Kingsclere water resources zone ("**WRZ**"). For SWS, the index is very likely to be less than 100 in 2019/20 and up to 2029/30. It is at this later point when the deficit will be completely removed in Hampshire when Havant Thicket reservoir comes on line. Also, the recent abstraction licence changes in Hampshire creates a supply-demand deficit in the WRZs in south Hampshire. Whilst additional supplies are built to recover the deficit SWS has a legally binding Section 20 agreement with the EA which sets out a range of additional monitoring, mitigation and compensation measures and an agreed process for the use of drought permit and drought orders to balance the risk between the environment and consumers until 2029/30. SWS has written to the EA asking them to take account of the Section 20 agreement and their acceptance of the licence changes as mitigation for the impact upon SoSI. The Hardham Wellfield scheme in Sussex North WRZ, which was due to be implemented in 2019/20 to deliver a supply benefit to Hardham WSW, is delayed due to land availability issues as well as sustainability concerns being raised about the impact of the scheme. The delay leads to an unplanned supply-demand deficit in this zone.

Leakage

Overall, about 18 per cent. of supply is lost through leakage with an estimated 15 per cent. coming from SWS's network and the remainder from pipes and fittings owned by households and businesses. The 2018/19 leakage figure of 101.8 million litres a day increased from the previous year following the unusual Freeze/Thaw event in March 2018 and the hot, dry summer of the same year.

SWS took action to establish 30 new teams dedicated to finding and fixing leaks with the expectation that the number of teams will grow, in addition to having updated its working practices with its partners to ensure SWS are collectively agile to deal with changing circumstances such as the weather. As a result, SWS is fixing more than before – approximately 36,000 leak incidences during 2018/19 alone – and will continue to work to drive down leakage. Despite this progress, it is likely that SWS will miss its five-year target (See Chapter 3 "*Risk Factors*" under "*Performance Commitments and Incentives*" for further information).

In line with industry norms, most of SWS's mains are constructed of iron, asbestos cement and plastics, with iron being the most common material.

Since 1990 to 1991, the amount of water put into supply by SWS has decreased by approximately 19 per cent. as a consequence of leakage control, metering and reduced consumption from domestic and commercial customers.

Water Resources

SWS has developed a water resources strategy (the "**SWS WRMP**") for a period of 50 years which has received Defra approval prior to publication. Further information on this can be found on SWS's website: https://www.southernwater.co.uk/whats-in-our-water-resources-plan (which also does not form part of this Prospectus).

This SWS WRMP sets out in detail how Southern Water proposes to ensure sufficient security of water supplies to meet the anticipated demands of its customers from 2020 to 2070. It includes details of levels of service, population and housing estimates, per capita consumption, water efficiency initiatives, leakage and metering. It also gives details of SWS's position with regard to the supply/demand balance and the proposed capital programme to ensure future demands are met, as well as providing key data relating to issues such as climate change and catchment abstraction management strategies for the future. These forecasts are set against the backdrop of environmental constraints and future challenges that exist in the south east of England.

SWS's water supply area borders those of eight other water companies. These are:

- South West Water (formerly Bournemouth Water);
- Wessex Water (including Cholderton and District Water);
- Portsmouth Water;
- Thames Water;
- Sutton and East Surrey Water;
- South East Water (including Mid Kent Water);
- Affinity Water (formerly Veolia Water Southeast); and

- Cholderton and District Water.

There are a number of bulk supply agreements between these companies, which allow large volumes of water to be moved from one company's area to another's. The number of boundaries and the existing and potential future interconnections with so many water companies raise a number of opportunities for optimising the strategic use of resources across the region. However, it also adds significantly to the complexity of the planning process and the selection of a single "company-preferred" solution.

A central part of the water resources network in Kent and the eastern part of Sussex is the River Medway Scheme, incorporating the Bewl Water Reservoir, originating from a 1968 Private Act of Parliament and a subsequent agreement between SWS and South East Water. South East Water is entitled to 25 per cent. of the yield of water under this River Medway Scheme and pays a proportionate contribution to costs.

SWS also published its approved drought plan in 2019 (the "**Drought Plan**"), which detailed how it will continue, during a period of drought, to discharge its duties to supply adequate quantities of wholesome water, with as little recourse as reasonably possible to Drought Permits or Drought Orders (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Management of Water Resources – Drought Planning*"). This followed public consultation in 2018 and approval of the Drought Plan in 2019 by DEFRA. The Drought Plan will help SWS provide adequate supplies of water during a drought with as minimal impact as possible on the environment and its customers. The Drought Plan (which does not form part of this Prospectus) can be viewed on SWS's website: https://www.southernwater.co.uk/our-drought-plan (which also does not form part of this Prospectus).

The EA are developing a national framework for water resource planning and it will require the development of a regional plan. SWS are part of Water Resources South East (WRSE) and are represented on various committees and have a senior employee seconded.

Fluoride Dosing

SWS does not currently add fluoride to water in any of the areas it supplies. It does however have a statutory duty to increase the fluoride content of the water it supplies (pursuant to section 87 of the WIA) if it is requested to do so by a relevant authority. The relevant authority was the NHS South Central Strategic Health Authority ("**SHA**"), and its successor is Public Health England. There are currently no requests under consideration. The costs SWS incurs in constructing, commissioning, and operating dosing arrangements on behalf of the relevant authority are in turn paid by that authority. The Secretary of State for Health has also provided a deed of indemnity to SWS, pursuant to section 90 of the WIA, which indemnifies SWS for all claims in respect of death or personal injury, or loss of or damage to property, arising out of SWS's discharge of the fluoridation services it provides.

The EU Drinking Water Directive is currently being revised and is envisaged to come into force in revised English Water Supply (Water Quality) Regulations is 2023. Changes proposed include a deferred reduction in the lead standard and new standards for viruses and compounds which are indicators for endocrine disrupting chemicals and pharmaceuticals. Assessment of the impact of microplastics may also be included. SWS is currently assessing the impact that these changes may have on its drinking water treatment and supply.

Wastewater Services

Wastewater – Approximate Base Statistics 2018/19[9]

Description	Value
Population served	4,670,452

[9] Accurate per the 2019 Annual Report, published in July 2019.

Description	Value
Properties served	1,992,753
Domestic	1,901,529
Business/non-domestic premises	91,224
Void account premises	59,803
Length of sewers (excluding private sewers adopted in October 2011	22,067
Estimated length of private sewers adopted in 2011 (last estimate)	17,464
Number of wastewater treatment works	365
Number of coastal and estuarine outfalls/marine treatment works	1514
Sewage sludge disposal:	RCF472
% vol. sludge discharged to agriculture	100%
% vol. sludge discharged to landfill	0%
Number of sewage pumping stations	3,321
Volume of wastewater treated daily	739Ml/d

SWS provides wastewater services to approximately 4.6 million people in Kent, Sussex, Hampshire and the Isle of Wight (the "**Wastewater Region**"). SWS collects and treats approximately 739 million litres of wastewater every day via approximately 39,800 km of sewers. Approximately one half of the population in SWS's wastewater area resides in urban areas along an extensive coastline. Accordingly, the majority of SWS's sewage discharge is into estuarial or coastal waters. This includes an average volume of 12.2 million litres per day of trade effluent from approximately 19,450 industrial businesses, who have permission to discharge trade effluent, subject to specific controls. These figures exclude storm flows and include any infiltration. A number of factors, including rainfall, may cause flows within SWS's wastewater network to vary from time to time.

As at 31 March 2019, SWS owned, operated and maintained 365 wastewater treatment works, 1,514 coastal outfall and estuarine outfalls and approximately 39,800 kilometres of sewers receiving foul and surface water through a mixture of combined (foul and surface water), separate and partially separate drainage systems. There are 3,321 wastewater pumping stations, which form an integral part of the wastewater system.

The wastewater system has been constructed principally of clay ware, concrete, brick and iron.

SWS has identified sewers as being either "critical" or "non-critical" based on the methodology developed by the Water Research Council. At 31 March 2019, there were some 6,763 km of "critical" sewers (sewers located in places where their malfunction would cause material disruption) (constituting 17 per cent. of the total length of sewers) in the Wastewater Region.

Ongoing investment in maintaining wastewater treatment works has ensured that SWS meets key performance and asset health metrics; such as wastewater treatment works compliance (i.e. ensuring effluent discharges are treated to 100% compliance with environmental permits). Wastewater treatment works performance in 2018/19 was good and SWS met treatment works compliance targets, investing in their treatment works assets to reduce risks and ensure full permit compliance. Although SWS met treatment works compliance targets, it is aware that there are specific underlying risk factors that could lead to a lower performance assessment for individual services and years; with a risk of treatment works compliance being below target levels in 2019 to 2020.

The majority of biosolids (treated sludge) is recycled for use as a fertiliser on agricultural land, treated to ensure SWS continues to protect the environment. For the last three years, 100 per cent. of biosolids (treated sludge) has been recycled for use as fertiliser on agricultural land. The recycling of biosolids in such a manner is regulated and previous investment in sludge treatment ensures that the strict standards are met. This environmentally sustainable recycling route currently negates the regular need for other disposal methods. Alternatives, including incineration and pyrolysis, would be considered if, in the longer term, SWS were to experience increasing constraints on the use of the agricultural land bank for the recycling of biosolids.

In the 2019 bathing season, the EA tested 83 designated bathing waters in the wastewater area for bacteria, physicochemical parameters, and the presence or absence of enteroviruses. 58 out of the 83 bathing waters have now achieved "Excellent" compared with 55 being achieved last year. Some 21 out of the 83 are rated "Good", four are "Sufficient" and – for the third year in a row – none are classified as "Poor".[10]

Any pollution incident could result in criminal prosecution leading to the imposition of penalties on SWS, civil liability in damages to third parties and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment.

The sewers posing the highest failure consequence in terms of pollution, flooding, nuisance and cost and logistics required to resolve reactively are termed Category A sewers as originally defined in the industry document "Sewer Rehabilitation Manual".[11] These are also referred to as critical sewers in terms of failure consequence rather than in terms of flow conveyance. For example, the final sewer into a wastewater treatment works through which all flow is conveyed may be critical to the function of the drainage system but if this is a small catchment and a small diameter pipe laid at shallow depth then this is not necessarily a Category A sewer.

To understand the condition of sewers and, therefore, determine the likelihood of failure to allow the risk score to be calculated, SWS inspects sewers by CCTV survey. The results of these surveys are then used to identify and prioritise a sewer rehabilitation programme to repair or replace assets where the likelihood of failure and, therefore, risk is sufficiently high to warrant investment. For SWS's next investment period 2020 to 2025, it is reviewing its sewer criticality data and results of previous condition surveys to identify a programme of sewer inspection and rehabilitation

Ofwat, EA and DWI Investigations

Ofwat

In October 2019 Ofwat imposed a financial penalty of £3m on SWS for contravention of statutory and licence provisions. The provisions related to the management of wastewater treatment works and the reporting of performance information to Ofwat. SWS also agreed customer redress measures totalling £123m (in 2017/18 prices). The imposed penalty and customer redress measures (together, the "**Regulatory Settlement**") could have an adverse effect on the financial position of SWS going forward (see Chapter 3 "*Risk Factors*" under "*Investigations*").

As part of the Ofwat investigation SWS shared the details of the various measures that were carried out, or measures that were being planned, with the aim of addressing the breaches highlighted.

The undertakings that have been agreed with Ofwat include the remedial actions that SWS had been discussing and agreeing with Ofwat when the draft Penalty Notice was published. The remedial actions also include additional activities formulated as a result of the Ofwat public consultation that took place after the publication of the Draft Penalty Notice. In this respect, the Court has some assurance that the improvement and remedial measures will be implemented as they are subject to a formal Section 19 WIA undertaking. This undertaking has in-built compliance monitoring and assurance provisions.

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[10] Please see https://www.southernwater.co.uk/the-news-room/the-media-centre/2019/november/bathing-water-results-announced-south-east-enjoys-best-ever-results for more information

[11] http://srm.wrcplc.co.uk/home.aspx

The EA

On 11 March 2020, SWS pleaded guilty to a total of 51 charges relating to non-permitted discharges at 17 different operational sites in Kent, Sussex and Hampshire. The relevant discharges took place from 1 January 2010 to 1 December 2015.

The case arises out of a large-scale investigation by the EA into SWS which arose out of concern over water quality along the North Kent and South Coast of England. SWS has pleaded guilty to the charges. The case is likely to be concluded in late 2020 following a sentencing hearing currently due to take place in the autumn of 2020. The financial impact of these proceedings is currently unknown.

In 2016, following visits by the EA, SWS set up a specific project to internally investigate the wastewater sites concerned. All permitted wastewater treatment works have been subject to a technical review by the project team. Having carried out this review, SWS is continuing such audits on all relevant wastewater treatment works on a rolling programme. The programme of site audits and resulting corrective actions has been an area of significant progress with over 1000 actions being progressed across the business (with over 800 having been completed, and the remainder subject to longer term plans). In addition, SWS has a specific budget to identify and correct any permit compliance risks identified by the audits, which includes a specific budget of £26 million for the corrective actions identified so far.

SWS is also under a separate criminal investigation by the EA regarding the historical performance of certain wastewater treatment sites and the reporting of relevant compliance information to the EA. SWS is working proactively to co-operate with this separate investigation, which is still evolving. The financial impact of this second investigation is also currently unknown. Neither a provisional nor a final enforcement order has been made in relation to these investigations.

Since 2017 the SWS Board has presided over some key changes to SWS's senior management team. Southern Water Services Ltd has a new CEO, Chairman and a new executive leadership team with a radically changed structure designed to improve compliance and operational excellence, with strengthened governance. The new structure incorporates a risk and compliance directorate (originally formed as a compliance and asset resilience directorate, with asset strategy and resilience now forming its own directorate). The risk and compliance directorate has improved risk management, giving greater oversight to reporting procedures and assuring the integrity of data.

SWS is undertaking significant cultural change and ethical transformation to address the issues arising from these Ofwat and EA investigations including:

- strengthened whistle-blowing policies including through the appointment of an independent adjudicator so any colleague with concerns feels confident they will be listened to;
- enhanced compliance across all wastewater treatment works including compulsory compliance and Code of Ethics training for all relevant colleagues; and
- refreshed company vision, values and purpose which support and align to a modern compliance framework.

<u>The DWI</u>

SWS is subject to a DWI investigation arising from 2014–15, in relation to water turbidity for which a decision is pending from the DWI. SWS is also subject to a DWI investigation in relation to operational issues at a water supply reservoir and chlorine levels above the WHO limit detected in May 2018, for which a decision is pending from the DWI.

SWS was subject to two final enforcement orders. Following the conclusion of its formal consultation process on 2 January 2020, the DWI confirmed the revocation of the final enforcement order concerning water quality sampling and information management issues. The DWI also accepted SWS's updated Information Management Undertaking which sets out a longer-term improvement programme on asset data, GIS systems and asset data quality controls. A Final Enforcement Order remains in place in respect of the implementation of a nitrates reduction scheme at Shoreham. The DWI have been informed of progress on this and are satisfied with the situation to date.

Environmental Certification

SWS originally achieved ISO14001 certification for its environmental management system ("**EMS**") in July 2008 and renewed its certification in May 2018. The EMS applies to activities that interact with the environment and over which the company has control and can be expected to have an influence. The standard is applicable to any organisation that wishes to:

- implement, maintain and improve an EMS to manage environmental risk;
- assure itself of its conformance with its own stated environmental policy;
- demonstrate conformance with the international ISO14001 standard;
- ensure compliance with environmental laws, regulations and relevant codes of practice;
- seek certification of its environmental management system by an external third-party organisation

The SWS environmental management plan 2019 to 2020 is available to all employees who have responsibility for assisting in its delivery and in contributing to company environmental performance.

SWS achieved ISO 9001:2015 recertification in May 2018 for the abstraction, treatment and storage of wholesome potable water (and industrial water in Hampshire), up to and including reservoirs. Activities within this scope statement are conducted at a variety of sites in Hampshire, Isle of Wight, Kent and Sussex.

The Company continues to strengthen and embed its internal controls and culture, in support of environmental management and reporting. Each year the Company publishes an annual assurance plan and a report on its risk, strengths and weaknesses. Priorities include improvements in the detailed end to end processes of environmental performance reporting and the maturity of the internal controls. Since April 2020, a new Environmental Performance section of the website has been available to improve access to certain environmental performance reports.

Environmental Controls

The UK Government has announced that it is committed to becoming a net zero carbon emission country by 2050 and the English water sector has voluntarily committed to achieve net zero carbon emissions by 2030. Accordingly, there is a very high probability that environmental legislation standards will increase, which may result in tighter environmental permitting limits on specific pollutants (such as nitrogen and phosphorus) as well as the introduction of controls on new micro-pollutants such as micro-plastics and hormones. These controls might require the introduction of new treatments and more advanced technologies. Furthermore, there is a developing shift towards more holistic environmental controls, including not only controls on "end of pipe" processes (i.e. the last stage of treatment process before disposal and delivery) but also on the inputs to treatment and treatment processes. This shift involves the introduction of new measures that will drive changes to the supply chain, the use of natural resources, energy usage and climate change risk assessments. This consequently will drive the circular economy model, which aims to remove waste and pollution from the system and instead keep products and materials in continuous use. This is already starting to be implemented via the Industrial Emission Directive and the drive to recover sludge and waste water (among other things) for use on land.

Renewables Investment

Subject to final project approvals and contracts, in AMP7 SWS is planning to invest in the replacement of circa half of the current CHP engine fleet, with the aim of improving the reliability and efficiency of our oldest engines. Additionally, SWS is developing a significant on-site Solar PV programme, funded via private wire power purchase agreements. These are important steps in improving SWS's renewable generation as a percentage of energy consumption, which is an ODI in AMP7 with a target of 24% (2018/19 financial year was 16.5%).

Rates and Billings

Water supply and wastewater services are charged separately and, therefore, charges are set (within the overall level set by Ofwat) so as to reflect the average costs of providing each service for each class of customers. Each year, SWS submits a pricing structure to Ofwat (within the overall limit set by Ofwat) for approval by Ofwat. The average SWS household bill for water supply and wastewater services for the 2019 to 2020 year is £415, comprising £193 for water supply and £222 for wastewater services.[12] During the year ended 31 March 2019, approximately 17 per cent. of turnover in respect of water and wastewater customers relates to supplies to unmetered customers, and approximately 83 per cent. to customers who pay by meter.[13]

The average SWS household bill for AMP7 will be 18.4% lower over 2020-2025 taking into account the impact of the Regulatory Settlement as disclosed in Chapter 6 *Regulation of the Water and Wastewater Industry in England and Wales*" under "*Enforcement Powers*".

Charges for customers with unmetered water supplies are based on either the rateable value of their premises or an assessed charge, together with a standing charge, for both water supply and wastewater services. Charges are billed in advance on an annual basis with payment annually, half-yearly or (with the agreement of SWS) by instalments.

Charges for customers with metered water supplies are based on the measured volume of water supplied, together with a standing charge generally according to the size of the meter, for both water supply and wastewater services. Wastewater charges include a fixed or assessed allowance against volume to reflect water supplied that is not discharged to a sewer. Charges for small meters are billed half-yearly, and more frequently for larger meters.

No direct charge can be made to highway authorities for highway drainage connected to wastewater infrastructure, the cost of which is recovered through wastewater standing charges to customers as a whole. Wastewater standing charges also include charges for surface water drainage. Customers may claim a rebate for this element of the wastewater standing charge where rainwater falling on their property does not enter the sewerage system.

Domestic Customers

As at 31 March 2019, 12.5[14] per cent. of SWS domestic customers (water, and water/waste combined) were unmetered. Although the domestic rating system was discontinued in 1990 (under the provisions of the UK Local Government Finance Act 1988), water companies were originally allowed to continue to use rateable values (as at 31 March 1990) for charging until 1 April 2000 under the WIA. Following a review of water and wastewater charges in England and Wales, the Government decided to allow companies to continue using the system after that date.

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12 Water UK, see https://discoverwater.co.uk/annual-bill "*Annual bill Average annual water and sewerage charges across England and Wales households*" <https://discoverwater.co.uk/annual-bill> accessed 1 October 2019

13 Accurate per page 182 the 2019 Annual Report, published in July 2019.

14 This figure relates only to occupied premises.

Domestic customers can have a free meter installed, where this is practicable and can be done at a reasonable cost to SWS and can revert to an unmetered basis of charging within 12 months of such installation, unless their property is then within an area that will be metered under SWS's Universal Metering Programme ("**UMP**") in that financial year.

In 2007, the Government consulted on water metering in areas of serious water stress and new regulations came into force on 1 October 2007. Under Regulation 4(1) of the amended Water Industry (Prescribed Conditions) Regulations 1999 the Secretary of State may, after consulting the EA, determine the whole or any part of a water undertaker's area to be an area of serious water stress. On 28 November 2007, the Secretary of State notified SWS that the whole of its water supply area had been determined to be an area of serious water stress for the purposes of the Regulations.

By virtue of Regulation 2(d) of the amended Water Industry (Prescribed Conditions) Regulations 1999, SWS is not restricted in its power to fix charges for household premises by reference to volume and to install a meter for charging purposes, provided that those premises are subject to a programme for the fixing of charges by reference to volume, as specified in the water undertaker's final water resources management plan ("**WRMP**").

In addition, provisions of the WIA:

- prevent disconnection of domestic customers and other protected premises for non-payment;
- empower the Secretary of State to make provisions which protect vulnerable customers with high essential water use, who live in homes with meters, from higher than average bills; and
- prevent charges schemes from taking effect until approved by Ofwat and give Ofwat a duty to take into account guidance from the Secretary of State.

SWS provides four types of assistance to domestic customers:

- **WaterSure Tariff**: This is an industry-wide scheme under the WIA 99. To qualify, the customer must be paying metered charges and be in receipt of a means tested benefit. In addition, they must either be in receipt of child benefit for three or more children in the household or suffer from a defined medical condition that requires them to use large amounts of water. The WaterSure tariff caps metered charges at the level of the average household bill for SWS's area;
- **Essentials**: SWS's social tariff (see below for an explanation of social tariff) that provides customers with a discount of between 20% – 90%, depending on the level of household income;
- **New Start**: a debt matching scheme where customers with a balance over a certain amount and limited income, can benefit from SWS matching payments they make towards that debt (after they have paid for their current usage);
- **Water Direct**: this is not financial assistance but rather a way for customers to pay their water bills straight from their benefits to help with their budgeting.

In calculating the wastewater charges of metered domestic customers, the volume of clean water supplied is used as the basis of the charge less a fixed allowance of 7.5 per cent. of such volume made in respect of water not discharged to a sewer (for example, water used outside the home for garden watering and washing cars).

The FWM Act enables water companies to introduce "social" tariffs, to provide assistance to those customers who struggle to afford their water and sewerage bills. The FWM Act explicitly allows water companies to introduce cross-subsidy between customers. Before such tariffs could be introduced the FWM Act required DEFRA to provide guidance on the factors to be taken into account in deciding whether one group of customers should subsidise another through such tariffs. Factors which a water company should consider when deciding whether one group should subsidise another include the level of water stress in the area and the need to incentivise water efficiency. Water companies should assess the level and nature of any social tariff based on local circumstances. Both metered and unmetered customers should be considered as being eligible for social tariffs. Water companies are required to strike a balance between the need to support customers with payment difficulties and the interests of customers paying the subsidies.

Non-Household

All of SWS's non-household customers were transferred to Business Stream by 3 April 2017. Most industrial and other non-household customers are metered. The non-household market is regulated by MOSL (Market Operator Services Ltd) who uses the CMOS system in calculating the wastewater charges of industrial and commercial metered customers, the volume of clean water supplied is used as the basis of the charge less a fixed allowance of 5 per cent. of such volume made in respect of water not discharged to a sewer. Certain industrial and commercial metered customers receive a higher allowance where a significantly higher volume of water supplied is not discharged to a sewer. Trade effluent is normally charged separately on a formula basis taking account of the volume of effluent, its strength and costs of removal and treatment.

Collections (Household)

SWS's collection methods include full payment or instalments using direct debit, standing orders, BACS, the internet, post office, plastic payment cards, PayPoint, debit/credit cards or direct payment to SWS, through to doorstep collections, debt collection agencies, the Department for Work and Pensions and recourse to court procedures in appropriate circumstances. Disconnection of domestic customers from the water supply network for failure to pay charges is prohibited following the introduction of the WIA 99.

Capital Investment Programme

The Final Determination for the AMP6 Period and the Final Determination for the AMP7 Period reflect an assumed level of expenditure (both new projects, asset maintenance and operations). This is apportioned between pay-as-you-go expenditure (which broadly reflects operating costs) and expenditure which is added to the RCV over the course of each of the AMP6 Period and the AMP7 Period. Expenditure which is added to the RCV is recovered through an allowance in customer charges to cover depreciation costs and an allowed return intended to compensate it for financing costs and provide a permitted return of capital.

The current forecasted spend is gross capex £1,826.2 million and £1,276.7 million of this expenditure relates to wastewater services (both in outturn prices), with the balance relating to water supply projects.

The following table summarises the levels of actual capital expenditure over the period 2015 to 31 March 2019.

	Capital Expenditure (£ million)		
	Actuals to 31 March 2019		
	Water	**Waste**	**Total**
Maintaining the network (predominantly pipes)	46.00	74.58	120.58
Maintaining treatment works/pumping stations and IT investment	217.19	545.62	762.81
Other capital expenditure – new developments	55.73	139.22	194.95
Other capital expenditure – new treatment works and processes	89.27	180.64	269.91
	Water	**Waste**	**Total**

	Capital Expenditure (£ million)		
	Actuals to 31 March 2019		
Infrastructure network reinforcement (pipes/pumps)	4.45	25.40	29.85
Total gross capital expenditure excluding third-party services	412.64	965.47	1378.11
Third-party services	12.92	10.46	23.39
Total gross capital expenditure	425.56	975.93	1401.49
Grants and contributions (price control)	-39.11	-50.86	-89.97
Net Total	386.46	925.07	1311.53

In AMP7 there are three significant categories of construction works contracts under which work will be performed and these are the "*AMP7 Delivery Partner Programme Framework Agreement*", the "*AMP7 Repair and Maintain Sewerage/Water/MEICA Framework Contracts*" and the standalone "*Runway 4 Major Projects*".

(1) The "AMP7 Delivery Partner Programme" **(**the "**DP Framework Agreement**") is the arrangement under which SWS issues contracts to design and construct some of its key capital investment programme work to Delivery Partners ("**DPs**"). The DPs consist of the following entities:

(i) Costain MWH Delivery Partner ("**CMDP**");

(ii) Morrison Utility Services Limited and Galliford Try Infrastructure Limited ("**MGJV**"); and

(iii) Galliford Try Infrastructure Limited ("**GT**").

Under the DP Framework Agreement, the DP is required to design and construct projects, which are let as incentivised contracts for tranches of construction projects for the modification or extension of existing water mains, sewers, water supply works and wastewater treatment works. The standard form of contract used is that of the NEC 3 Option C Target contract with activity schedule with bespoke amendments.

The AMP7 DP Framework Agreement follows on from the "**AMP6 DP Framework Agreement**" which was used for the delivery of works in AMP6 although there still remains some work from AMP6 to be concluded under the AMP6 DP Framework Agreement.

(2) The "**AMP7 Repair and Maintain Sewerage/Water/MEICA Framework Contracts**" or "**R&M**" framework allows for letting of work order-based contracts for small scale civil, infrastructure and non-infrastructure works, including construction works and associated management activities. The standard form of contract used is that of the NEC 2 Term Service Contract with bespoke amendments.

(3) **Major Projects (Runway 4)**

Southern Water reserves the right to let stand alone work for undefined, discretionary work or work associated with a new need. Where the existing framework agreements are not suitable to deliver such work, a standalone tender will be arranged for a major project.

These contracts are as yet undefined for AMP7 however one example of an in-flight AMP6 contract that will cross over to AMP7 is that of the "Thanet Sewers Rehabilitation Phase 2" project based on a combined NEC Target and Schedule of Rates contract mechanism. The contracting entity is Terra

Pfeiffer Matt Durbin JV Limited ("**TPMD**") which is a special purpose vehicle whose only purpose is to deliver the design and construction of the works.

Reduction of RCV by Ofwat

If SWS does not incur the expenditure necessary to complete the delivery of a defined obligation during the relevant Periodic Review Period, Ofwat would be entitled to reduce SWS's RCV to reflect this. Such reduction may be implemented by Ofwat by way of an IDOK (if the amount of expenditure which has not been incurred is material), or otherwise at the next Periodic Review. If appropriate, Ofwat would then include the relevant defined obligation (and associated capital expenditure) as part of its determination of the level of investment and associated defined obligations for the subsequent Periodic Review Period. In addition to any RCV reduction, Ofwat would be entitled to claw back any benefit received by SWS in the original Periodic Review Period in relation to the defined obligations which have not been fulfilled.

SWS's ability to fulfil defined obligations, and the level of associated expenditure, can be affected by circumstances and third parties (such as planning authorities) beyond SWS's control.

Asset Condition and Serviceability

The Licence requires SWS to produce and provide to Ofwat an Underground Asset Management Plan which, among other things, shows the expenditure necessary in each year to ensure that asset condition is maintained in an appropriate state, and tracks the condition of SWS's assets over time (in practice, Ofwat requires information in respect of both above-ground assets and below-ground assets).

The latest reported performance of SWS's assets, for 2018/19, shows "stable" performance for both water and sewerage underground and above-ground water service assets. There is however a risk of a lower performance assessment for individual services and years, with a risk of a "Marginal" serviceability assessment for sewerage above ground for 2019 to 2020.

Business Process Outsourcing

SWS has in place a number of outsourcing framework arrangements for back-office processing work across engineering design services, accounting, data and reporting and Human Resources. In addition, SWS entered into a new partnership in 2019 with Capita Customer Management Ltd to provide an end to end retail service for its household customers. The scope of this partnership covers onshore services in customer contact, early collections recovery and complaint handling with back-office transactional services delivered offshore. The partnership enables a fully integrated service for customers and provides a platform for further change and innovation over the next five years.

Information Technology

The SWS IT department has recently successfully insourced its IT services back in-house from two major outsource providers. This was done to improve SWS's ability to manage, vary and change IT and business services in the period leading up to, through and beyond AMP7, as internal and external pressures mean SWS must be able to adapt and react quickly to change. In addition, SWS continues to have areas of managed service support for various business applications.

The focus for AMP7 is to build on the technical investments made in AMP6 such as new virtualised data centre infrastructure. SWS's plans include:

(i) Transformation of SWS's enterprise information systems;

(ii) Redesign of SWS's IT networks; and

(iii) Investment in business data analytics and machine learning.

The planned IT investment will also serve to improve SWS's risk, resilience and cyber-security position regarding GDPR and the Network Information and Systems (NIS) Regulations which applies to SWS as it is deemed Critical National Infrastructure (CNI) and an operator of essential services. Both GDPR and the NIS Regulations can attract significant fines of up to 4 per cent. of turnover for GDPR per incident, and maximum £17 million for NIS per incident. To manage NIS, SWS is liaising closely with the Competent Authority (DWI) and has a NIS Programme and plan in place to address the compliance outcomes required.

Property

SWS's property interests consist substantially of freehold interests, and there are estimated to be between 3,000 and 4,000 separate titles (excluding pipeline interests). As a result of the reorganisations of local government and water-related services in 1974 and privatisation of the water industry in 1989, SWS inherited many of its sites and, for some, it is unable to deduce full legal title to all of its real property. Those properties where this is true fall into the following broad categories:

- properties in respect of which SWS is believed to have legal title but does not possess full documentary evidence to prove such title (the deeds having been lost or destroyed or never provided by the previous title holder); and/or
- properties in respect of which SWS has acquired or could acquire the necessary rights by compulsory purchase or claim prescriptive rights or adverse possession.

SWS is not involved in any ongoing disputes, in relation to title to property, of a material nature. SWS has undertaken a programme of voluntary first registration at HM Land Registry of its current unregistered titles and most of its titles have now been registered.

Insurance

SWS maintains insurance cover which is consistent with the minimum insurance requirements of the CTA. Insurance cover for 2019 to 2020 includes the following: £125 million limit with a £500,000 deductible for Property Damage & Business Interruption; £50 million limit for Employers Liability; £150 million limit with a £250,000 deductible for Public/Products Liability. Third-party motor insurance; £15 million limit with a £500,000 deductible for Crime insurance; Directors & Officers liability – effected in accordance with Good Industry Practice.

Litigation/Actions

In common with other companies in the water and wastewater industry, SWS is frequently involved in, or is the subject of, civil and criminal proceedings, but, SWS is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SWS is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of SWS, other than as expressly disclosed in this Prospectus (see Chapter 3 "*Risk Factors*" under "*Investigations*" and Chapter 5 "*Description of the SWS Financing Group*" under "*Ofwat, Environment Agency and DWI Investigations*"). Where legal investigations or proceedings are underway, they can take some time to conclude and relate to issues from as far back as 2010. To illustrate, the EA prosecution relates to activities dating from 2010 and the most recent prosecution from the DWI in August 2018, resulted in a fine of £65,000 and relates to an event that took place in 2013 at Cooks Castle on the Isle of Wight, before new structures and improvement programmes were implemented.

Non-regulated Activities

SWS's non-regulated businesses are not material to the group, generating £10.5 million annual turnover and other operating income and £2.9 million operating profit (3.1 per cent. of the total) for the year ending 31 March 2019.[15]

Activity	**Turnover and other Operating Income**	**Operating Profit**
Landsearch	£3.1 million	£2.2 million
Tankered Waste	£6.6 million	£0.1 million
Other	£0.8 million	£0.6 million
Total	£10.5 million	£2.9 million

Political and other Developments

Exit from the European Union

The UK's exit from the EU took place on 31 January 2020 under a withdrawal agreement which grants the UK with a transition period until 31 December 2020 (the "**Transition Period**"). The terms of the UK's arrangement with the EU are unclear and will be determined during the Transition Period, however it is unclear whether, following the Transition Period, the UK will have reached an agreement on the terms of their future relations with the EU. It is possible that the UK will leave the EU with no formal agreement in place if no agreement can be reached and approved by all relevant parties within the Transition Period.

Ring-fencing and the SWS Financing Group

As part of its obligations as a Regulated Company, SWS is subject to certain ring-fencing restrictions under its current Licence. Modifications were made to SWS's licence in September 2008 to strengthen the ring-fence, following the acquisition of SWS by the Greensands consortium investors. Subsequently, minor changes have been made to the ring-fencing provisions, most recently in January 2019 as part of a review and restructure of all companies' licences. See "*Regulatory Ring-fencing*" below, which sets out the current Licence provisions including the additional conditions which came into effect on 1 January 2019.

In addition, to reduce SWS's exposure to credit and event risk of companies in the Greensands Group, a "ring-fenced" financing group has been created (the "**SWS Financing Group**"). These measures also reflect the requirements of the covenant and security package as summarised in Chapter 7 "*Summary of the Financing Agreements*".

The ring-fencing measures are intended to ensure: (i) that SWS has the means to conduct its Appointed Business separately from the Greensands Group; and (ii) that all dealings between the Greensands Group and the SWS Financing Group are on an arm's length basis. The ownership structure of the SWS Financing Group is set out in Chapter 4 "*Financing Structure*".

The main elements comprising the regulatory and structural ring-fencing of the SWS Financing Group from the Greensands Group companies are set out below.

15 Please refer to the 2018/19 Annual Performance Report, Table 1A. The breakdown into the individual components is from management accounts

Regulatory Ring-fencing

Regulatory ring-fencing is common, in differing degrees, to each of the Regulated Companies in England and Wales pursuant to their respective licences. Under the Licence, SWS must ensure that transactions between it and its associated companies are on an arm's length basis, to prevent cross-subsidisation of activities. Failure to comply with the Licence may in certain circumstances give rise to a breach of the Licence and possibly the Competition Act 1998 as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". Under Licence Condition K.3.1, SWS must ensure at all times, so far as reasonably practicable, that, if a Special Administration Order was made in respect of it, SWS would have available to it sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purposes of such order could be achieved. See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Licences – Special Administration Orders*".

Current Ring-Fencing Provisions in SWS's Licence

The ring-fencing provisions contained in SWS's Licence are broadly similar to those contained in the licences of all other Regulated Companies. The most important provisions are:

(a) Transactions between SWS and its associated companies: Any transaction between SWS and its associated companies (being its subsidiaries and any affiliated companies) must be conducted at arm's length, such that there is no cross-subsidy of the associated company by SWS (or vice versa).

(b) Restrictions on Dividend Payments: SWS is required to only pay dividends in accordance with a policy that complies with the following principles: (i) such payments will not impair the ability to finance its Appointed Business; and (ii) the payment of such dividends is to reward efficiency and the management of economic risk.

(c) Limits on the transfer of certain assets to associated companies: Save with the express consent of Ofwat, SWS is not permitted to transfer certain rights or assets (being those which a Special Administrator would require if a Special Administration Order were made in order to operate the Appointed Business) to an associated company.

(d) Adequate Resources: SWS is required at all times to act in a manner "best calculated" to ensure that it has adequate financial resources and facilities and also management resources to carry out its Regulated Activities ("**Regulated Activities**" being the functions of a water undertaker or, as the case may be, a sewerage undertaker) (including necessary investment programmes). The directors of SWS are required to certify on an annual basis that this requirement will continue to be met for the subsequent 12-month period. The basis on which such a view is formed must also be disclosed to Ofwat. As soon as the directors become aware of a reason why SWS cannot be expected to comply with this obligation, they are obliged to file a report to this effect to Ofwat in accordance with the provisions of the Licence.

(e) Restrictions on other transactions: Save with the express consent of Ofwat, SWS must not: (i) give any guarantee of any liability of any associated company; (ii) make to any associated company a loan; or (iii) enter into an agreement or incur a commitment incorporating a cross default obligation (whether with an associated company or otherwise). Condition F.6.11(1B) sets out a limited exception as regards situations where liability under a cross-default obligation would arise only on a default of a subsidiary company of SWS, in which case, SWS may permit that cross-default obligation to remain in effect for the period for which it was fixed by the instrument which created it, so long as its potential liability is not changed.

(f) Publishing of financial information: SWS is required to publish such information about its annual and interim financial results as is required by the FCA listing rules as if SWS were listed on the London Stock Exchange.

(g) Maintenance of a financial instrument listed on the London Stock Exchange: SWS is required to maintain a financial instrument and shall use all reasonable endeavours to retain its listing on the London Stock Exchange.

(h) Investment grade credit rating: SWS (or any associated company) will be required to maintain an investment grade issuer credit rating. The issuer rating will reflect the financial capacity of the Appointed Business and therefore its ability to raise capital or maintain access to liquidity in the future. Any significant adverse changes to the rating will act as an early signal that the ability of the Appointed Business to raise future finance is at risk.

(i) Conducting the Appointed Business of SWS: SWS (and its directors) is required to operate the Appointed Business as though it were substantially SWS's sole business and SWS was a separate public limited company. In particular, SWS should:

   (i) have a board of directors which will act independently of the parent company/controlling shareholders and exclusively in the interests of SWS;

   (ii) ensure that all directors disclose any conflicts of interest both to SWS and Ofwat, and that SWS's articles of association prohibit a director from voting in any matter in which they have an interest;

   (iii) ensure that, where a potential conflict between SWS and its corporate group arises, SWS and its board of directors have exclusive regard to SWS's interests as a regulated water and sewerage undertaker;

   (iv) notify Ofwat of all changes in board membership and responsibilities/functions of the directors;

   (v) have regard to the Principles of Good Governance and Code of Best Practice required by the FCA listing rules from time to time; and

   (vi) have regard to, when conducting the Appointed Business, the dividend policy to be adopted by the board of directors.

Recent Modifications to SWS's Licence

In addition to the above conditions, Ofwat proposed certain additional modifications to the SWS's Licence Conditions.

The comments made by SWS, among others, in response to the consultation and how Ofwat has taken them into account in arriving at its final decision on licence modifications can be viewed in the document titled "*Conclusions on Licence Simplification and Modification of all Instruments of Appointment*" which can be accessed at the following link https://www.ofwat.gov.uk/wp-content/uploads/2018/09/Conclusions-on-licence-simplification-and-modification-of-all-instruments-of-appointment.pdf.

This document is also a notice confirming that Ofwat has now modified the licences of all Appointees in accordance with section 13 of the WIA91 and sets out SWS's reasons for doing so as required by section 195A WIA91.

These changes came into effect for most conditions on 1 January 2019, with Conditions F and N coming into effect on 1 March 2019.

Structural Ring-Fencing

The regulatory ring-fencing measures described above have been enhanced by the separation of SWS from non-regulated companies and the establishment of the SWS Financing Group, as described in Chapter 4 "*Financing Structure*". The composition of each of the boards of directors for the companies within the SWS Financing Group is described below.

Security and Covenant Packages

In connection with the Programme, the SWS Financing Group provides as full a security package as is commensurate with the limitations imposed by the WIA and the Licence.

Pursuant to the covenant package (as set out in Chapter 7 "*Summary of the Financing Agreements*"), dividends, management fees (if any), debt service relating to and repayments under certain intra-group debt, and other such distributions are only permitted if no Trigger Event or Event of Default is continuing and historical and forward-looking interest cover ratios and regulated asset ratios and certain other conditions are met. The security package and the covenant-based ring-fencing restrictions placed on the SWS Financing Group are set out in Chapter 7 "*Summary of the Financing Agreements*".

Business Separation

All new debt relating to the Appointed Business will be issued by entities within the SWS Financing Group.

Pursuant to the ring-fencing arrangements, SWS employs all employees required to run the Appointed Business.

All transactions entered into by the SWS Financing Group with third parties (including Greensands Companies) are entered into on an arm's length basis. Any transaction between SWS and the Greensands Companies is formally reviewed to ensure compliance with the Licence and procurement regulations. See the section "*Regulatory Ring-fencing*" above.

As part of the ring-fencing arrangements, SWS must conduct the Appointed Business as if it were substantially SWS's sole business. SWS's management has retained some Permitted Non-Appointed Business and assets within permitted *de minimis* levels. Under the covenant package, the Security Trustee may permit SWS to enter into limited joint ventures in areas outside the regulated water and wastewater business subject to certain limitations on the aggregate value of all Permitted Non-Appointed Business. See Chapter 7 "*Summary of the Financing Agreements*".

Under the covenant package, SWS is able to acquire assets or make disposals only if conditions relating to each are met (for example, regulated asset ratio requirements in relation to disposals). See Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Covenants – Covenants – General*".

Management and Employees of SWS Directors and Secretary of SWS

The SWS board (the "**SWS Board**") currently consists of ten individuals.

There are no actual conflicts of interest between any duties to SWS of its directors and alternate directors and their private interests or other duties. Save as disclosed below in relation to Ian James McAulay, no director has any potential conflict of interest between his duties to, SWS and his private interests or other duties.

The directors and secretary of SWS are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

Keith Lough – Chairman

Keith Lough joined SWS and was appointed as the company's Chairman on 1 August 2019.

Keith has extensive experience in the natural resources and energy sectors in both finance and leadership roles, including as finance director for British Energy plc between 2001 and 2004 during a period of major restructuring.

In addition, Keith served as non-executive chairman of Gulf Keystone Petroleum plc and concluded a successful debt restructuring. Immediately prior to his appointment to the SWS Board, Keith was a non-executive member of the Gas and Electricity Markets Authority (Ofgem) where he was chair of the Audit and Risk Assurance Committee, having served on the board since 2012.

Keith holds non-executive directorships in a number of oil and gas companies, including at Hunting plc as senior independent director, Cairn Energy plc and Rockhopper Exploration plc. Keith holds a MA in economics and MSc in finance and is a Fellow of the Association of Chartered Certified Accountants.

Ian McAulay

Ian joined SWS as CEO in January 2017 and was appointed to the Board from 1 February. Ian has more than 30 years of global water and environmental experience and a significant record of achievement operating in both publicly quoted FTSE 100/250 companies and privately held enterprises.

Ian holds an honours degree in Civil and Environmental Engineering and is a Chartered Member of the ICE and CIWEM.

Throughout his career he has managed major utility, construction and consulting businesses in the UK, Belgium, India and the USA. He has enhanced this practical experience with professional executive education, most notably at Harvard Business School.

He has extensive experience in the UK regulated utility, construction and environmental services sectors, holding board positions across a broad range of commercial and statutory organisations.

In his previous role he served as an executive director of the Pennon Group plc and chief executive of its subsidiary company, Viridor, one of the largest renewable energy and recycling companies in the UK.

In a non-executive capacity, he serves on the CBI Infrastructure Board and the Greater Brighton Economic Board. Ian currently chairs the Greater Brighton Economic Board and Infrastructure Panel and is a member of the CBI Infrastructure Board. He has also provided expert input to Government Review Groups and Industry Partnerships with particular emphasis on the UK skills agenda and development of future smarter regulation and environmental policy.

Sebastiaan Boelen

Sebastiaan Boelen joined SWS in December 2018 and was appointed to the SWS Board in the same month.

He started his career with more than 10 years in the (Dutch) Royal Navy where he attended the Royal Naval College and the University of Technology Delft, specialising in Operations and Information Technology.

After completing an MBA at INSEAD he worked in management consulting (McKinsey, Coopers&Lybrand) followed by a number of senior finance roles - in private equity portfolio companies and listed companies - in telecom, consumer goods, regulated infrastructure (Electricity NorthWest) and financial services.

Sebastiaan has worked and lived in the Netherlands, France, Switzerland, Belgium, Luxembourg and the UK.

Paul Sheffield

Paul Sheffield joined the SWS Board in June 2014 and was appointed as Senior Independent Director in July 2015. He is a Fellow and of the Institution of Civil Engineers and is also a member of the Supervisory Board of BAM Group in the Netherlands. Paul is also a specialist adviser to the Board of Manchester Airport Group, working on their £1.5 billion capital programme at Manchester and Stansted Airports.

In his executive career, he spent over 32 years with Kier Group plc — the construction, services and property group. Graduating as a Civil Engineer in 1983, Paul spent 15 years working on major capital projects around the world, before taking responsibility for a number of business units within the Group. Paul was on the Group Board for ten years and served as its chief executive officer between 2010 and 2014. Between 2014 and 2017 he headed up the construction operations for the European and Middle Eastern business for Laing O'Rourke Services, delivering some of the biggest capital projects, such as Crossrail, Hinkley Point C Nuclear Power Station and major capital projects in the water industry.

Through his various roles in business leadership, Paul has gained significant experience of strategy, productivity innovation and efficiency and the vital role that ethics plays in determining the long-term success of an organisation.

Rosemary Boot

Rosemary Boot joined the Board in March 2015. She is currently a member of the Audit and Remuneration Committees.

Rosemary is also a non-executive director of Impact Healthcare REIT PLC, a listed UK care home real estate investment trust and a non-executive director of Urban&Civic plc, a listed UK master developer. She is a Trustee of Green Alliance, the environmental think tank and is a founder and director of Chapter Zero Limited, the not for profit network for UK non-executive directors to help them increase their knowledge and understanding of the implications of climate change for business.

Previously, Rosemary was chief financial officer of Future Cities Catapult, was group finance director of the Carbon Trust from 2001-2011 and, before that, worked for 16 years as an investment banker..

Gillian Guy

Gillian Guy was appointed a director of SWS on 12 November 2018. Since July 2010, she has been Chief Executive Officer of the independent charity Citizens Advice. Gillian is a lawyer and spent 11 years as Chief Executive Officer of the London Borough of Ealing, before becoming Chief Executive Officer of Victim Support. She served as a non-executive board member and Chair of the Audit Committee of the National Audit Office and a non-judicial member of the Sentencing Council for England and Wales. Gillian was awarded a CBE in the New Year's Honours list in 2015.

Kevin McCullough

Kevin McCullough was appointed a director of SWS on 18 July 2019. A Chartered Engineer and a Fellow of the Institute of Mechanical Engineers and the Energy Institute, he has 35 years of experience in the energy utility sector. He has developed a strong reputation for delivering results in the most arduous of business environments, having held significant executive positions with RWE Innogy & npower, Horizon Nuclear Power and UK Coal Production Ltd. His career has seen him take key roles interfacing on all aspects of UK energy generation, including renewable energy deployment and conventional thermal coal and oil plant phase out.

Michael Putnam

Michael Colin Putnam was appointed a director of SWS on 26 September 2017. A Chartered Engineer and a Fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors, Michael has over 25 years' experience leading and managing development and construction businesses. He is known for his values-based approach to leadership. Michael has a portfolio of Non-Executive Directorships, including Network Rail, Arcadis NV and Bazalgette (Tideway) Tunnel Ltd. Throughout Michael's career, he has been closely involved with the successful delivery of many high-profile projects and programmes.

Malcolm Cooper

Malcolm Cooper joined the Board and was appointed as Chair of the Audit Committee on 23 December 2019.

Malcolm has extensive experience in the regulated utility sector having worked for around 30 years at National Grid plc, British Gas plc and other companies. He was a member of the Board of both National Grid Gas plc and National Grid Electricity Transmission plc, the UK regulated operating companies of National Grid.

Malcolm has a degree in Pure Mathematics and is a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Association of Corporate Treasurers. He is a non-executive director at Morgan Sindall plc where he chairs the Audit Committee and the Health, Safety and Environment Committee; and MORhomes plc where he is Senior Independent Director and New Issues (Funding) Committee Chair.

He is an independent member of the Audit Committee of Local Pensions Partnership Ltd. He was a non-executive director at CLS Holdings plc where he was a Senior Independent Director and the Audit Committee Chair until 23rd April 2020. He was previously a non-executive director of St William, a joint venture between National Grid and Berkeley Group plc to build homes on brownfield sites.

He is a Past President of the Association of Corporate Treasurers and was a member of the Listing Authority Advisory Panel of the FCA.

Sara Sulaiman

Appointed in September 2017, Sara Sulaiman is an Executive Director of JP Morgan Asset Management.

Prior to her current role, Sara was an investment director at Arle Capital Partners, a London based mid-market private equity firm. Prior to that she worked on corporate finance transactions both within Simmons & Company International, a specialist energy investment bank, and KPMG’s Global Infrastructure and Projects Group (within the Energy & Natural Resources team).

Sara started her career in industry working as a finance analyst in Petroleum Development Oman and Shell Chemicals in London. She holds a Bachelor of Arts in Economics from Yale University, an MPhil in Economics from the University of Cambridge, and is an Associate of the Chartered Institute of Management Accountants.

In addition to her board role in SWS, Sara currently serves as a non-executive director on the holding companies of Nortegas, a Spanish gas distribution business and North Sea Midstream Partners, a gas transport and processing business in the UK.

Richard Manning – Company Secretary

Richard Manning is company secretary of SWS, joining Southern Water in July 2018 as General Counsel and Company Secretary. He has held similar roles in a number of listed and private companies and brings a wide experience of legal and governance matters. He holds a law degree and an MBA and is a qualified solicitor.

Pensions

Pensions for SWS employees are currently provided through two arrangements, the Southern Water Pension Scheme (“**SWPS**”), which is a funded defined contribution arrangement, and a Company Stakeholder Plan (“**CSP**”) which is a defined contribution scheme.

As at 31 March 2019 there were 464 active members, 1448 deferred members and 2309 retired members of the SWPS, 1785 active members of the CSP, and approximately 139 SWS employees who are not members of either scheme. Employees on fixed term contracts are offered access to the CSP.

Pensions management services and secretarial support are currently provided by Capita Hartshead for the SWPS and by Standard Life for the CSP.

The funding level of the SWPS is a net FRS 17 deficit of £186.7 million before deferred tax as at 31 March 2019 and as at 30 September 2019, a £174.7 million deficit. The deficit is present mainly as a result of continued turbulence in the stock market, low interest rates and reduced actuarial mortality rates.

The SWPS was closed to new members from 1 April 2005. Certain terms of the schemes were changed from July 2005 when members were given the option to contribute an extra 3 per cent. of salary to continue at existing accrual rates. They were also given the option to continue to pay the current contribution rate but build up benefits at a lower rate. Other minor changes to the SWPS were made because of legislative changes under the 2004 Finance Act and a salary sacrifice scheme (PensionsWise) was introduced in November 2009.

The company has made arrangements to cap future increases in Pensionable Pay to the lesser of 2.5 per cent. and the annual increase in the Retail Price Index to reduce the cost of the SWPS, address the current deficit and make the scheme more sustainable. They are also continuing to work with the Trustee to better manage the financing risks within SWPS to further reduce ongoing volatility and funding costs.

Ofwat has indicated a general willingness, subject to certain conditions, to take into account pension deficit contributions as allowable operating expenditure when determining K for Regulated Companies. Ofwat continues to allow recovery of a share of pension deficit repair contributions through charges to customers, with AMP7 funding of £45 million (2017/2018 CPIH-deflated prices, averaging circa £9 million per annum) being recovered through revenues. A schedule of deficit annual contributions to 2029 has been agreed with the trustees and the Pensions Regulator based on the triennial valuation as at 1 April 2016. The current schedule of contributions was agreed in October 2018 with the next scheduled payment falling due on 1 April 2020. The next triennial valuation is effective, and due for completion within 15 months from 1 April 2019.

SWSGH

SWSGH is incorporated under the Companies Act 1985 and registered in England and Wales. The registered office of SWSGH is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWSGH is a wholly-owned direct subsidiary of SWSG and its authorised share capital is £101,000 divided into 101,000 ordinary shares. 100,100 ordinary shares have been issued of which all have been fully paid up. SWSGH's subsidiaries are SWSH, SWS, the Issuer, SWEPST and SWPT.

Please also see Chapter 4 "*Financing Structure*" under "*Substitution of the Issuer*" regarding SWS's intention to remove the Cayman islands-incorporated issuer from its corporate structure.

Directors and Company Secretary

The directors and company secretary of SWSGH are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of SWSGH are Ian McAulay and Joanne Statton. Descriptions of their principal activities outside the SWS Financing Group can be found above under "*Management and Employees of SWS – Directors and Secretary of SWS*".

Save as disclosed above under "*Management and Employees of SWS – Directors and Secretary of SWS*" in relation to Ian McAulay, no director has any actual or potential conflict of interest between his duties to SWSGH and his private interests or other duties.

Joanne Statton is company secretary of SWSGH.

SWSH

SWSH is incorporated under the Companies Act 1985 and registered in England and Wales. The registered office of SWSH is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWSH is a wholly-owned direct subsidiary of SWSGH and its authorised share capital is £101,000 divided into 101,000 ordinary shares. 100,100 ordinary shares have been issued of which all have been fully paid up. SWSH's subsidiaries are SWS, the Issuer, SWEPST and SWPT.

Directors and Company Secretary

The directors and company secretary of SWSH are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of SWSH are Ian McAulay and Joanne Statton. Descriptions of their principal activities outside the SWS Financing Group can be found above under "*Management and Employees of SWS – Directors and Secretary of SWS*".

Save as disclosed above under "*Management and Employees of SWS – Directors and Secretary of SWS*" in relation to Ian McAulay, no director has any actual or potential conflict of interest between his duties to SWSH and his private interests or other duties.

Joanne Statton is company secretary of SWSH.

The Issuer

The Issuer is incorporated and registered in the Cayman Islands. The registered office of the Issuer is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Issuer is a wholly-owned direct subsidiary of SWS and has no subsidiaries. The authorised share capital is £25,000 divided into 25,000 ordinary shares of £1 each, of which 1,000 such shares are in issue and are fully paid up.

Please also see Chapter 4 "*Financing Structure*" under "*Substitution of the Issuer*" regarding SWS's intention to remove the Cayman islands-incorporated issuer from its corporate structure.

Directors and Company Secretary

The directors and company secretary of the Issuer are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of the Issuer are Ian McAulay and Joanne Statton. Descriptions of their principal activities outside the SWS Financing Group can be found above under "*Management and Employees of SWS – Directors and Secretary of SWS*".

Save as disclosed above under "*Management and Employees of SWS – Directors and Secretary of SWS*" in relation to Ian McAulay, no director has any actual or potential conflict of interest between his duties to the Issuer and his private interests or other duties.

Joanne Statton is the company secretary of the Issuer.

CHAPTER 6
REGULATION OF THE WATER AND WASTEWATER INDUSTRY IN ENGLAND AND WALES

Water and Wastewater Regulation Generally

Background

The structure of the water and wastewater industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. Before this, as a consequence of the Water Act 1973, there were 10 regional public sector water authorities supplying water and wastewater services and 29 privately owned statutory water companies supplying water only. Under the Water Act 1989, the functions of the water authorities relating to water supply (except in areas where those functions were carried out through statutory water companies) and wastewater services, together with the majority of the water authorities' property, rights and liabilities, were transferred to 10 companies appointed as water and sewerage undertakers in England and Wales.

As at August 2019, Ofwat recognised eleven large regional companies providing water and sewerage services, six regional companies providing water services only (following some recent consolidation), nine local companies providing water or sewerage or both, 36 water supply and/or sewerage licensees offering regulated retail services to non-household customers and one infrastructure provider) (together, the "**Regulated Companies**", but unless otherwise expressly stated, references to a "**Regulated Company**" in this Chapter 6 are references to that company in its capacity as a water and sewerage undertaker or, as the case may be, a water undertaker).

The provisions of the Water Act 1989 are now contained mainly in the consolidating WIA which itself has been substantially amended by the Water Industry Act 1999, the Water Act 2003, the FWM Act, the Water Act 2014 and to a lesser extent by various other statutory provisions. The Water Act 2014 introduced a new, more liberalised market structure, vests more powers and responsibilities in Ofwat and makes a number of changes to water resources and environmental regulation. Under the Water Act 2014, the non-household retail market opened to competition in April 2017. This market structure provides a choice for owners of any (not just large) non-household premises to choose their provider as far as a retail service (for both water supply and sewerage) is concerned. These providers, or "water supply licensees", comprise not only the original licensees that served large-use customers before April 2017, but also new entrants. References in this Chapter 6 to statutes are to the WIA, as amended, unless otherwise stated.

On 31 October 2016, the Exit Regulations entered into force. The Exit Regulations provide for water and sewerage undertakers whose areas are wholly or mainly in England to apply to the Secretary of State for permission to exit the non-household retail market in their area of appointment. Subject to the approval of the Secretary of State, the undertaker would exit the retail market by transferring its non-household retail business to one or more water supply and/or sewerage licensees and would thereafter be prohibited from providing retail services to any new non-household customers that arise in its area of appointment. No water or sewerage undertaker may re-enter the market having so exited.

The Exit Regulations also introduced provisions that set out how the non-household retail market should operate in an exit area. These in particular ensure that customers in exit areas are never left without a licensee and provide customer protections that are broadly equivalent to those they would have been provided if the undertaker had not exited the retail market. On 25 October 2016, SWS applied to exit the non-household retail market. As a result, all of SWS's non-household customers transferred to Business Stream by 3 April 2017. No water or sewerage undertaker may re-enter the market having so exited.

Regulatory Framework

The activities of Regulated Companies are principally regulated by the provisions (as amended) of the WIA, the WRA and regulations made under these Acts and the conditions of their licences (also referred to as "**Instruments of Appointment**"). Numerous sets of regulations are established under these Acts, including (i) the Water Infrastructure Adoption (Prescribed Water Fittings Requirements) (England) Regulations 2017 (SI 2017/841), which prescribe standards for water mains and supply pipes, (ii) the Water Supply and Sewerage Services (Customer Service Standards) (Amendment) Regulations 2017 (SI 2017/246), which apply customer service standards to water supply licensees and sewerage licensees operating in the areas of water and sewerage undertakers that are wholly or mainly in England, and (iii) the Water Fluoridation (Proposals and Consultation) (England) Regulations 2013/301, which impose procedural requirements on local authorities in the exercise of their functions regarding consideration of proposals for new fluoridation schemes, and varying, terminating or maintain existing fluoridation schemes. Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointee for every area of England and Wales. Appointments may be made by the Secretary of State or in accordance with a general authorisation given to Ofwat.

The economic regulator for the water and wastewater industry is Ofwat. Ofwat is responsible for, among other things, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their activities and affairs. The two principal quality regulators are the DWI (appointed by the EFR Secretary of State) and the EA (an executive non-departmental public body, sponsored by Defra). The DWI's principal task is to ensure that Regulated Companies in England and Wales fulfil their statutory requirements under the WIA and the Water Quality Regulations for the supply of wholesome drinking water. The DWI is part of Defra and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It carries out annual technical audits of each water undertaker; this includes an assessment (based on information supplied by the company) of the quality of water in each supply zone, arrangements for sampling and analysis, and progress made on achieving compliance with regulatory and EU requirements. The EA was established under the Environment Act 1995 and is responsible, in England and Wales, for the protection and improvement of the environment in delivering schemes to improve water quality. The EA's duties include the regulation of abstractions from, and discharges to, controlled waters (which include coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater).

There are also specific requirements for development, and requirements for the protection and management of nationally and internationally important wildlife and natural habitats (either on land owned by SWS or on land affected by SWS's wider operations) regulated by Natural England, DEFRA and the EA.

The description given in this document relates to the structure and regulations that apply in England. Although the structure of the water and wastewater industry is the same in Wales, different regulations sometimes apply. There are different structures and different regulatory frameworks for water and wastewater services in the remainder of the United Kingdom (Scotland and Northern Ireland).

Ofwat and the Secretary of State

Each of the Secretary of State and Ofwat has a primary duty under the WIA to exercise and perform its powers and duties under the WIA in the manner it considers best calculated to:

- further the consumer objective, which is to protect the interests of consumers, wherever appropriate, by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- secure that the functions of Regulated Companies are properly carried out throughout England and Wales;

- secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions;
- secure that the activities authorised by the licence of a licensed water supplier and any statutory functions imposed on it are properly carried out; and
- further the resilience objective, which is to secure the long-term resilience of water supply and sewerage systems and that Regulated Companies take steps to enable them, in the long term, to meet the need for water supplies and sewerage services.

Subject to these primary duties, each of the Secretary of State and Ofwat is required to exercise and perform its powers and duties in the manner it considers best calculated to:

- promote economy and efficiency on the part of Regulated Companies;
- secure that there is no undue preference or discrimination in the fixing of charges;
- protect the interests of customers of Regulated Companies (and companies connected with them) in respect of non-regulated activities in particular by ensuring that: (i) transactions are carried out at arm's length; and (ii) in relation to their regulated business, Regulated Companies maintain and present accounts in a suitable form and manner;
- protect the interests of customers in connection with the benefits that could be secured for them by the application of the proceeds of disposal by Regulated Companies of Protected Land; and
- contribute to the achievement of sustainable development.

There is also a power for the Secretary of State to issue statutory guidance to Ofwat concerning how Ofwat might contribute to social and environmental policies. There is also a duty on DEFRA to encourage water conservation and on all public authorities, as defined, to take into account, where relevant, the desirability of conserving water supplied or to be supplied to premises.

The Secretary of State, Ofwat and statutory undertakers also have general environmental and recreational duties under section 3 of the WIA.

Licences

General

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder that relate to limits on charges, information reporting requirements, various codes of practice, and other matters. In addition to the conditions regulating price limits (see the section "*Economic Regulation*" below), each licence also contains conditions regulating infrastructure charges and the making of charges schemes, and imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by conditions in each licence include: accounts and the provision of accounting information; codes of practice for customers on disconnection and on leakage; levels of service and service targets; "ring-fencing" of assets and restrictions on disposal of land; asset management plans; the provision of information to Ofwat; provision of combined and water operations supplies; and payments to customers for supply interruptions because of drought. Ofwat is responsible for monitoring compliance with licence conditions and, where necessary, enforcing compliance through procedures laid down in the WIA.

Termination of a Licence

There are certain circumstances provided for in the WIA under which a Regulated Company could cease to hold a licence for all or part of its area:

(a) a Regulated Company could consent to the making of a replacement appointment or variation, which changes its appointed area, in which case Ofwat has the authority to appoint a new licence holder;

(b) under condition O of a licence, where the Secretary of State has given the Regulated Company at least 25 years' notice of termination and that period of notice has expired;

(c) under the provisions of the Special Administration regime, the Special Administrator may transfer the business and licence to a successor (see the section "*Special Administration Orders*" below); or

(d) by the granting of an "inset" appointment (or a new appointment and variation "**NAV**") over part of a Regulated Company's existing appointed area to another Regulated Company (see "*Competition in the Water Industry*" below).

Before making an appointment or variation replacing a Regulated Company, Ofwat or the Secretary of State must consider any representations or objections made. Where the Secretary of State or Ofwat makes such an appointment or variation, in determining what provision should be made for the fixing of charges by the new Regulated Company, it is the duty of the Secretary of State or Ofwat to ensure, so far as may be consistent with their duties under the WIA, that the interests of the members and creditors of the existing Regulated Company are not unfairly prejudiced as regards the terms on which the new Regulated Company could accept transfers of property, rights and liabilities from the existing Regulated Company.

An inset appointment can be granted to a company seeking to provide water and/or wastewater services on an unserviced site, or to a large user of water and/or wastewater services within an existing Regulated Company's area (provided certain thresholds are met and the person who is the customer consents), or where the incumbent Regulated Company consents to the variation. The threshold for large user insets has been reduced, from 250 to not less than 50 million litres of water supplied or likely to be supplied to particular premises in any 12-month period, which has increased the number of large users that are able to qualify for inset appointments

Modification of a Licence

(a) Regulatory Landscape

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA. Under section 55 of the Water Act 2014, Ofwat can modify the conditions of Regulated Companies and licensees where such modifications are considered necessary or expedient as a consequence of amendments made by the Water Act 2014. Subject to a power of veto by the Secretary of State of certain proposed modifications, Ofwat may modify licence conditions with the consent of the Regulated Company concerned under section 13 of the WIA. Primary legislation can also confer on Ofwat the power to modify the licence of a Regulated Company without the consent of the Regulated Company. This is usually a time-limited power. To date, such modifications made pursuant to primary legislation have only occurred in relation to Conditions R and S.

Before making the licence modifications, Ofwat must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections, which Ofwat must consider. In the absence of consent, the only means by which Ofwat can normally secure a modification is following a modification reference to the CMA. A modification reference may also be required in the event of a direction from the Secretary of State to the effect that, among other things, in his view, the modifications should only be made, if at all, following a reference to the CMA.

The CMA (and the Secretary of State in certain circumstances) also has the power to modify the conditions of a licence after an investigation under its merger or market investigation powers under the Enterprise Act if it concludes that matters investigated in relation to water or sewerage services were anti-competitive or, in certain circumstances, against the public interest.

A modification reference requires the CMA to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those matters could be remedied or prevented by modification of the conditions of the licence. In determining whether any particular matter operates or may be expected to operate against the public interest, the CMA is to have regard to the matters in relation to which duties are imposed on the Secretary of State and Ofwat.

If there is an adverse finding, the CMA's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the licence. If the CMA so concludes, Ofwat must modify the licence as necessary to remedy or prevent the adverse effects specified in the report while having regard to the modifications specified therein and after giving due notice and consideration to any representations and objections.

If it appears to the CMA that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the CMA has the power to substitute its own modifications which are requisite for the purpose.

It is possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company (without the consent of the Regulated Company) albeit that this is usually a time-limited power and any licence modification must usually be made in accordance with, and as a direct consequence of, a provision of such primary legislation. To date, changes permitted pursuant to primary legislation have only occurred in relation to Conditions R and S. Condition R seeks to ensure that there is no undue preference or discrimination against any customers or licensees and governs obligations regarding information. Condition S deals with situations where a licensee proposes to introduce water into an undertaker's supply system.

(b) Instrument of Appointment modifications

As stated above, Ofwat and the CMA have the power to modify the conditions of the Licence of a Regulated Company.

In the Water Act 2014, section 55 allows Ofwat to modify the conditions of Regulated Companies and licensees within two years of the coming into force of the relevant provision of the Water Act 2014, where such modifications are considered necessary or expedient as a consequence of amendments made by the Water Act 2014.

In July 2018, Ofwat launched a consultation under section 13 of the WIA on two proposed modifications of the licence conditions of 17 water companies. The first proposed modification would prohibit water companies from showing undue preference towards or undue discrimination against themselves, other water companies (including NAVs, water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services). The second proposed modification would place restrictions on the circumstances in which water companies could externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure. The modifications are intended to facilitate the development of new wholesale markets, the NAV market and the self-lay market by removing any unfair commercial advantages and ensuring a level playing field for new entrants. A notice to introduce such changes was published in November 2018 after consent was received from all companies to such changes.

In September 2018, Ofwat published a consultation under section 13 of the WIA on proposed modifications to simplify various conditions of all water companies' licences. Several conditions were affected by the proposed modifications, but the purpose thereof was to improve the clarity of conditions and remove redundant aspects. The modifications proposed did not aim to change any underlying purpose or requirement, and the most significant proposed changes related to Condition F (accounting information only) and Conditions G, H & I which were largely combined into a new Condition G. It was further proposed that Conditions R1 and R2 be deleted as they have ceased to have effect. The consultation closed on 19 October 2018, and in December 2018 Ofwat published its conclusions in a document entitled "*Conclusions on Licence Simplification and Modification of all Instruments of Appointment*" (the "**Consultation Conclusion**"). The Consultation Conclusion also served as a notice confirming that Ofwat had modified the licences of all the water companies in accordance with section 13 of the WIA (with changes coming into effect in January and March 2019). The amendments made to the SWS Licence included the deletion of conditions R4 (Stapling Condition) and R5 (Customer Protection Condition) as these were also considered to be redundant, despite not being included in the original consultation.

In November 2018, following a consultation in March 2018, Ofwat made three modifications to the standard licence conditions that apply to water supply licences and sewerage licences. Two of these modifications ensure that the standard licence conditions apply to sewerage only licences and licences limited to self-supply. The third modification provides that Ofwat may only request an additional certificate to the annual certificate of adequacy to be submitted by 1 April each year if there is a material change of circumstances not anticipated at the time the annual certificate was submitted.

In addition, on 20 November 2018, Ofwat published a further consultation under section 13 of the WIA on strengthening the regulatory ring-fencing framework, and issued its decision on the same section on 9 July 2019. As a result, all ring-fencing provisions will now be drawn into Condition P instead of in individual licences to achieve a consistent regulatory framework. This will require consultation under section 13 of the WIA. The decision stated that more analysis is needed in relation to credit rating and ring-fencing certificates, and further guidance will be issued where necessary.

In July 2019, after Ofwat launched a consultation in May 2019 and received consent from all 17 Regulated Companies, it became compulsory for all water companies to meet new objectives about board leadership, transparency and governance under their licence. Ofwat first introduced its board leadership, transparency and governance principles in 2014, and updated them in 2019 to include a specific requirement for water company boards to establish their company's purpose, strategy and values. As a result, boards of Regulated Companies must also be satisfied that these, and their culture, reflect the needs of all those it serves as part of its licence obligations. Ofwat issued licence modifications in November 2019 that incorporated the above new requirements.

In November 2019, Ofwat issued modifications to Condition B of licences of 17 water companies including SWS. These modifications are made under section 13 of the WIA. The modified Condition B continues to allow Ofwat to make determinations on setting controls in respect of charges levied by SWS or revenue allowed to it for the supply of water and sewerage services, as well as providing for reviews by Ofwat to determine whether one or more Price Controls should be changed. It now makes clear that Ofwat's 2019 price review final determinations are able to set the opening revenue allowances in the price controls for network plus activities, which are defined as all activities carried out by SWS in its performance of its functions as a water undertaker other than those in connection with raw water abstraction, transport and storage (and any designated ancillary services). Under the new condition, SWS is now also able to levy charges to recover shortfalls in revenue in previous charging years, as long as those shortfalls are calculated in accordance with Ofwat's Revenue Forecasting Initiative formula. Condition B also continues to give SWS the ability to refer to Ofwat for an

Interim Determination between Periodic Reviews and to give information to Ofwat to enable it to make such determinations

Water Supply

Each Regulated Company which is a water undertaker has a general duty as such to develop and maintain an efficient and economical system of water supply and to make arrangements in relation to the provision of water supplies within its appointed area. It also has specific supply duties, including a duty to comply with a water main requisition provided certain conditions are met, duties to supply water for domestic purposes to premises within the appointed area which are connected to a water main and to connect new premises to a water main. These duties must be carried out, so far as reasonably possible, with the aim of furthering the conservation and enhancement of natural beauty and the conservation of flora, fauna and physical features of special interest, and of maintaining freedom of access to places of natural beauty, buildings, sites and objects of archaeological, architectural and historical interest and providing access and recreation to the public. In addition, it may be required in certain very limited circumstances to connect premises outside its appointed area to one of its water mains and to supply water to those premises. Each Regulated Company is under a duty to promote the efficient use of water by its customers.

Water supplied for domestic purposes or food production purposes must be wholesome at the time of supply, which entails compliance with the Water Quality Regulations. In certain circumstances, the standards set in those regulations may be relaxed. Where standards or relaxed standards are not being met, the Secretary of State is under a duty to take enforcement action against the supplier. However, Regulated Companies may submit undertakings, Regulation 28 Notices or apply for an authorised departure to the Secretary of State detailing steps designed to secure or facilitate compliance with those standards. The Secretary of State is not required to take enforcement action for breaches of the Water Quality Regulations if satisfied with the undertakings, or if satisfied that the breaches are of a trivial nature, or if general duties preclude taking enforcement action. The Secretary of State has stated that, except in certain very limited circumstances, it is unlikely that enforcement action will be taken against Regulated Companies which are complying with the terms of their undertakings. Under the WIA, it is a criminal offence for a Regulated Company to supply water which is unfit for human consumption.

During 2018, 99.98 per cent[16] of the tests carried out on samples complied with the mandatory national and European standards for microbiological and chemical parameters, as set out in the Water Quality Regulations. Since 1988, Southern Water has implemented an extensive investment programme to ensure compliance.

On 6 July 2016, the EU Parliament adopted the Directive on security of network and information systems (the "**NIS Directive**"). The NIS Directive provides legal measures to protect essential services and infrastructure by improving the security of Network and Information systems. The Government implemented the NIS Directive through the NIS Regulations 2018 (the "**NIS Regulations**"), which came into force on 19 May 2018. The DWI is the competent authority for the purposes of the NIS Regulations. Drinking water supply and distribution has been designated as an essential service for the purposes of the NIS Regulations and Regulated Companies, who are suppliers of potable water to 200,000 or more people, are automatically designated as an "Operator of Essential Services" and are required to comply with its requirements. In sum, operators of essential services are required to take appropriate measures to manage risks to their network and information systems, to prevent and/or minimise the impact of incidents to those systems, and to notify the DWI of any incident that has affected the network and information systems which has had a significant impact on the continuity of the essential service. This will include occurrences where the operator of essential services has identified any operator error or interference with power, electronic systems, operational technology or information technology which has

[16] Published in July 2018 by the Drinking Water Inspectorate, the independent regulator of public water supplies in England and Wales

impacted on the supply, quality or sufficiency of water. Please refer to the Information Technology section under Chapter 5 "*Description of the SWS Financing Group*" which provides further information on the Southern Water NIS programme of work being undertaken and fines regime.

Wastewater Services

Each Regulated Company which is a sewerage undertaker has a general duty as such to provide, improve, extend and maintain a system of public sewers capable of draining its region effectively, and to make provision for the emptying of sewers and for dealing effectively with their contents. It also has specific sewerage duties, including a duty to comply with a sewer requisition provided certain conditions are met, a duty to provide sewers otherwise than by requisition, and a duty to permit private drains and sewers to be connected to its public sewers.

Under the Environmental Permitting (England and Wales) Regulations 2016 ("**EP Regulations 2016**") (as amended by the Environmental Permitting (England and Wales) Amendment Regulations 2018), it is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of an environmental permit. The principal prosecuting body is the EA.

The terms of the environmental permit will depend largely on the type of discharge and when the permit was granted. The EA has discretion as to the terms on which Environmental Permits are granted or existing are altered. The disposal of wastewater sludge from wastewater treatment works is also controlled.

Serviceability Standards

Regulated Companies are required to report to Ofwat on their performance against certain service standards, particularly service to customers, in respect of their obligations as water undertakers and sewerage undertakers and against performance commitments agreed as part of the price review process. If they do not meet certain standards under Ofwat's Guaranteed Standards Scheme ("**GSS**"), they may be required to pay compensation to customers (in accordance with the minimum payments set out in the GSS, although some companies may choose to voluntarily increase these amounts).

Under the Water Act 2003, Regulated Companies are required to disclose whether or not they link the remuneration of their directors to levels of customer service attained and to give details of how any links affect remuneration.

Enforcement Powers

The general duties of Regulated Companies as water or sewerage undertakers are enforceable by the Secretary of State and/or Ofwat both. The conditions of the licence (and other duties) are enforceable by Ofwat alone while other duties, including those relating to water quality, are enforceable by the DWI. Other duties, such as those in respect of water abstractions and discharges, are enforceable by the EA.

Where the Secretary of State (via the DWI) or Ofwat is satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, or is likely to contravene, its licence or a relevant statutory or other requirement, either the Secretary of State or Ofwat (whichever is the appropriate enforcement authority) must make a final enforcement order to secure compliance with that condition or requirement, save that, where it appears to the Secretary of State or Ofwat more appropriate to make a provisional enforcement order, he may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or Ofwat shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or Ofwat will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement that is in breach. There are exemptions from the Secretary of State's and Ofwat's duty to make an enforcement order or to confirm a provisional enforcement order:

- where the contraventions were, or the apprehended contraventions are, of a trivial nature;
- where the company has given, and is complying with, a Section 19 Undertaking to secure or facilitate compliance with the condition or requirement in question;
- where duties in the WIA preclude the making or confirmation of the order; or
- where it would be more appropriate to proceed under the Competition Act 1998.

Section 19 Undertakings create obligations that are capable of direct enforcement under section 18 of the WIA. Accordingly, the main implication of a Regulated Company assuming such an undertaking is that any future breach of the specific commitments contained in the undertaking is enforceable in its own right (without the need for further grounding on general statutory or licence provisions).

The WIA also confers powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act 2003. In certain circumstances, Ofwat and the Secretary of State have the power to fine such a company up to 10 per cent. of its turnover from the preceding business year (for each respective breach). These circumstances include a failure to comply with licence conditions, standards of performance or other obligations. The penalty must also be reasonable in all the circumstances. The time limit for imposing such financial penalties was extended by the Water Act 2014 from 12 months to five years. A penalty may not be imposed later than five years from the contravention or failure except when a notice under section 22A(4) of the WIA (indicating the amount of the proposed penalty and the circumstances giving rise to a penalty) or under section 203(2) of the WIA (requiring the Regulated Company to provide information in relation to the contravention or failure) is served during that period. Where a final or provisional order has been made in respect of a contravention or failure, a penalty cannot be imposed unless a notice under section 22A(4) is served within three months of the final order or confirmation of the provisional order, or within six months of the provisional order if it is not confirmed

The Water Act 2003 also provides for situations where a new licensee has caused or contributed to a breach of a Regulated Company's licence or caused or contributed to a Regulated Company contravening a statutory or other requirement, or where a Regulated Company has caused or contributed to the breach of a new licensee's licence or caused or contributed to the breach of the latter's statutory or other requirements. In those cases, Ofwat may impose an appropriate remedy. A Regulated Company may appeal a penalty order to the Court. The Court may cancel or reduce the penalty or extend the time-scale to pay. The requirement to pay the penalty is suspended until the case is determined. A financial penalty may not be imposed under this provision for an infringement if it is more appropriate to proceed under the Competition Act.

On the basis of a consultation launched in March 2016, Ofwat published an updated enforcement strategy in January 2017. Ofwat confirmed that its approach to enforcement is risk-based and aimed at securing companies' compliance with their licence and statutory obligations. Ofwat stated that, although it is willing to use all powers vested in it under relevant legislation to secure compliance, where it finds that a company has breached its licence or a statutory obligation it may, following informal regulatory action, consider not opening a formal enforcement case if the company has taken appropriate steps to provide redress to customers or it may start formal proceedings but agree to reduce the penalty if measures have been put in place to provide appropriate redress. Some contraventions (i.e. misreporting or causing harm to customers) will automatically result in enforcement action and in some instances, significant financial penalties.

In October 2019, Ofwat published a decision to impose a penalty on SWS for contravention of statutory and licence provisions in relation to the management of its wastewater treatment works and the reporting of performance information to Ofwat. Ofwat decided that a penalty of about £37.7 million was appropriate but it reduced it to £3 million in light of undertakings provided by SWS, under section 19 of the Act.[17] The amount of £3 million is to be paid to Ofwat by 22 November 2019 (for onward payment to the Consolidated Fund held by HM Treasury).

Under the undertakings, SWS will make reparations to customers and former customers for an amount of about £123 million in total over the next five years. This is made up of customer bill rebates in lieu of underperformance penalties (£91.2 million), set as part of Ofwat's price review process, which the company avoided paying as a result of misreporting to Ofwat. The rest is a customer bill rebate for reporting failures (£31.7 million), and which is to be made in lieu of a penalty. A small proportion of this amount may also be disbursed to former customers of SWS as a one-off payment.

SWS has also committed to operational changes to avoid future non-compliance including greater transparency about its environmental performance among other things, information about pollution incidents, flow and spill reporting, wastewater treatment works compliance, regional bathing water compliance results, emissions and river levels will be published in a dedicated section within the company's website. Further, SWS is committed to strengthen its internal compliance mechanism and has put new systems in place to safeguard its services with enhanced whistle-blowing procedures and introduced a revised set of company values and a modern compliance framework.

Special Administration Orders

(a) Circumstances

The WIA contains provisions enabling the Secretary of State, or Ofwat with the consent of the Secretary of State, to secure the general continuity of water supply and wastewater services. In certain specified circumstances, the Court may, on the application of the Secretary of State or, with his consent, Ofwat, make a Special Administration Order in relation to a Regulated Company and appoint a Special Administrator. These circumstances include:

- where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide wastewater services or of a final or confirmed provisional enforcement order and, in either case, the breach is serious enough to make it inappropriate for the Regulated Company to continue to hold its licence;
- where the Regulated Company is, or is likely to be, unable to pay its debts;
- where, in a case in which the Secretary of State has certified that it would be appropriate, but for section 25 of the WIA, for him to petition for the winding-up of the Regulated Company under section 124A of the Insolvency Act, it would be just and equitable, as mentioned in that section, for the Regulated Company to be wound up if it did not hold a licence; and/or
- where the Regulated Company is unable or unwilling to adequately participate in arrangements certified by the Secretary of State or Ofwat to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination of the existing Regulated Company's licence.

In addition, on an application being made to Court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding-up of the Regulated Company, the Court would not be entitled to make a winding-up order. However, if satisfied that it would be appropriate to make such an order if

[17] Page 3 of Ofwat's final decision to impose a financial penalty on Southern Water Services Limited, dated 10 October 2019 and accessible at https://www.ofwat.gov.uk/wp-content/uploads/2019/06/Ofwat%E2%80%99s-final-decision-to-impose-a-financial-penalty-on-Southern-Water-Services-Limited.pdf

the Regulated Company were not a company holding a licence, the Court shall instead make a Special Administration Order.

(b) Special Administration Petition Period

During the period beginning with the presentation of the petition for Special Administration and ending with the making of a Special Administration Order or the dismissal of the petition (the "**Special Administration Petition Period**"), the Regulated Company may not be wound up, no steps may be taken to enforce any security except with the leave of the Court and, subject to such terms as the Court may impose, no other proceedings or other legal process may be commenced or continued against the Regulated Company or its property except with the leave of the Court.

Once a Special Administration Order has been made, any petition presented for the winding-up of the company will be dismissed and any receiver appointed, removed. While a Special Administration Order is in force, those restrictions imposed during the Special Administration Petition Period continue with some modifications: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, in the case of certain actions which require the Court's leave, the consent of the Special Administrator is acceptable in its place. See the section "*Restrictions on the Enforcement of Security*" below.

(c) Special Administrator Powers and the Transfer Scheme

A Special Administrator has extensive powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. He is appointed only for the purposes of transferring to one or more different Regulated Companies as much of the business of the Regulated Company as is necessary for the proper carrying out of its water supply or sewerage functions as the case may be and, pending the transfer, of carrying out those functions. During the period of the order, the Regulated Company is managed for the achievement of the purposes of the order and in a manner which protects the respective interests of members and creditors. However, the effect of other provisions of the WIA is ultimately to subordinate members' and creditors' rights to the achievement of the purposes of the Special Administration Order.

Were a Special Administration Order to be made, it is for the Special Administrator to agree the terms of the transfer on behalf of the existing appointee, subject to the provisions of the WIA ("**Transfer Scheme**"). The Transfer Scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the Transfer Scheme) to the new Regulated Company(ies). The powers of a Special Administrator include, as part of a Transfer Scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or Ofwat, as well as the power to exercise any right the Regulated Company may have to seek a review by Ofwat of the Regulated Company's charges pursuant to an IDOK or a Substantial Effects Clause. To take effect, the Transfer Scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and Ofwat may modify a Transfer Scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of Her Majesty's Treasury, the power: (i) to make appropriate grants or loans to achieve the purposes of the Special Administration Order and to indemnify the Special Administrator against losses or damages sustained in connection with the carrying out of his functions; and (ii) to guarantee the payment of principal or interest and the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to a Special Administration Order.

The FWM Act (see "*Competition in the Water Industry*" below) amended the special administration regime in the WIA to bring it in line with modern insolvency practice in unregulated industries. The FWM Act also streamlined the procedures for transferring a failing company to new owners. The changes enable the Special

Administrator to pursue the goal of rescuing the Regulated Company as a going concern if this is reasonably practicable.

In its updated approach to enforcement dated 9 January 2017, Ofwat has confirmed that, as at the beginning of 2016, neither the Secretary of State nor Ofwat have needed to apply to the Court for such a Special Administration Order.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land and includes the creation of a charge.

Protected Land comprises any land, or any interest or right in or over any land, which:

- was transferred to a water and sewerage company (under the provisions of the Water Act 1989) on 1 September 1989, or was held by a water only company at any time during the financial year 1989/90;
- is, or has at any time on or after 1 September 1989, been held by a company for purposes connected with the carrying out of its regulated water or wastewater functions; or
- has been transferred to a company in accordance with a scheme under Schedule 2 to the WIA from another company, in relation to which the land was Protected Land when the transferring company held an appointment as a water or sewerage undertaker.

Unless a specific consent is obtained from the Secretary of State, all disposals of Protected Land must comply with Condition K of the licence. This condition seeks to ensure (i) that, in disposing of Protected Land, the Regulated Company retains sufficient rights and assets to enable a Special Administrator to manage the business, affairs and property of the Regulated Company so that the purposes of the Special Administration Order can be achieved and (ii) that the best price is received from such disposals so as to secure benefits to customers (where such proceeds were not taken into account when price limits were set, they are shared equally as between customers and shareholders). To this end there are certain procedures for and restrictions on the disposal of Protected Land and special rules apply to disposals by auction or formal tender and to disposals to certain associated companies. These include a restriction on the disposal (except with the consent of Ofwat) of Protected Land required for carrying out the Appointed Business. In addition, Ofwat can impose conditions on disposals of Protected Land including conditions relating to the manner in which the proceeds of a sale are to be used.

Given the purposes of the WIA (in particular of the Special Administration regime and the restrictions on enforcement of security thereunder) and of Condition K of its licence, a Regulated Company would not expect to obtain the consent of the Secretary of State or Ofwat to the creation of any security over its Protected Land.

Condition K of SWS's Licence sets a threshold of £1 million for requiring permission from Ofwat to dispose of Protected Land or £500,000 in respect of a disposal to an Associated Company (as defined in the Licence). All land disposals are reported to Ofwat in the annual return.

Security

(a) Restrictions on the Granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, the WIA restricts a Regulated Company's ability to dispose of Protected Land (as explained in "*Protected Land*" above). Accordingly, its licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

In addition, provisions in a Regulated Company's licence require the Regulated Company at all times:

(i) to ensure, so far as is reasonably practicable, that if a Special Administration Order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purpose of such an order could be achieved; and

(ii) to act in the manner best calculated to ensure that it has adequate: (A) financial resources and facilities; and (B) management resources, to enable it to carry out its regulated activities.

These provisions have the indirect effect of further limiting the ability of a Regulated Company to grant security over its assets, in particular assets required for carrying out the Appointed Business, and by limiting in practice the ability to enforce such security.

(b) Restrictions on the Enforcement of Security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days' notice to both the Secretary of State and Ofwat. If a petition for Special Administration has been presented, leave of the Court is required before such security is enforceable or any receiver can be appointed (or, if a receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see "*Special Administration Orders*" above).

Once a Special Administrator has been appointed, he would have the power, without requiring the Court's consent, to deal with property charged pursuant to a floating charge as if it were not so charged. When such property is disposed of under this power, the proceeds of the disposal would, however, be treated as if subject to a floating charge which had the same priority as that afforded by the original floating charge.

A disposal by the Special Administrator of any property secured by a fixed charge given by the Regulated Company could be made only under an order of the Court unless the creditor in respect of whom such security is granted otherwise agreed to such disposal. Such an order could be made if, following an application by the Special Administrator, the Court was satisfied that the disposal would be likely to promote one or more of the purposes for which the order was made (although the Special Administrator is subject to the general duty to manage the company in a manner which protects the respective interests of the creditors and members of the Regulated Company). Upon such disposal, the proceeds to which that creditor would be entitled would be determined by reference to the "best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value" which would apply in a conventional administration for a non-Regulated Company under the Insolvency Act.

Within three months of the making of a Special Administration Order or such longer period as the Court may allow, the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, among other persons, the Secretary of State, Ofwat and the creditors of the company. The creditors' approval of the Special Administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration under, the Insolvency Act). The interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is or would be so prejudicial. Except as mentioned below, the Court may make such order as it thinks fit, and any order made by the Court may include an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint. The exception referred to above is that the Court may not make an order which would prejudice or prevent the achievement of the purposes of the Special Administration Order.

Enforcement of Security over Shares in Regulated Companies

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in a Regulated Company would not be subject to the restrictions described above in relation to the security over a Regulated Company's business and assets. Notwithstanding this, given Ofwat's general duties under the WIA to exercise and perform its powers and duties, among other things, to ensure that the functions of a Regulated Company are properly carried out, the expectation is that any intended enforcement either directly or indirectly of security over, and subsequently any planned disposal of, the shares in a Regulated Company to a third-party purchaser would require consultation with Ofwat. In addition, depending on the circumstances, the merger control provisions could apply in respect of any such disposal.

Economic Regulation

General

Economic regulation of the water industry in England and Wales has been based on a system of five-year price caps (determined by the Periodic Reviews) imposed on the amounts Regulated Companies can charge to their customers. This was replaced with effect from 1 April 2015 with a system of four (three for water-only companies) price limits covering water operations, wastewater operations, retail household and retail non-household. The system retains its incentive-based properties and each price limit will operate for five years as with the previous regime, with the exception of retail non-household. The current five-year period is the AMP6 Period spanning 1 April 2015 to 31 March 2020.

The next five-year period is the AMP7 Period spanning 1 April 2020 to 31 March 2025, based on the Final Determination published on 16 December 2019. The Final Determination set out price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; and business retail. Ofwat decided in its Final Methodology for the 2019 Price Review (December 2017) to revert to a five-year price control for business retail activities.

The current system of economic regulation is described below.

(A) PR14

Key Features of the AMP6 Price Limit Framework

A key feature of the AMP6 price limit framework is Ofwat's ambition to set allowances independently of companies' business plans based on economic models of the costs of an efficient water company. This places the onus on companies to manage their business in such a way that is sustainable over the long term. It is an "outcome-based" regulatory model and hence has in place outcomes, commitments and ODIs which affect all price limits. These were developed during the price review for each price limit following extensive customer engagement and review by Ofwat. The outcomes apply at the Regulated Company and describe the outcomes that customers wish to be delivered. The SWS outcomes are set out in Chapter 5 "*Description of the SWS Financing Group*".

For each outcome a series of appropriate commitments are established that set out the levels of performance that will be targeted in the current price limit period. To incentivise delivery of these commitments, ODIs, either financial or reputational, are developed for each commitment. Where financial incentives apply, the unit rate of reward or penalty, and the bands in which the incentive applies, are also established. Companies will report on their performance against all incentives (financial and non-financial) on an annual basis.

In addition to the company-specific ODIs, Ofwat retained in AMP6 the industry-wide SIM that was introduced in AMP5. However, Ofwat made a number of modifications to the AMP5 scheme. The main change is that the weighting of the qualitative score has been increased to 75 per cent. (from 50 per cent.) and the weighting of the quantitative score has consequently decreased to 25 per cent. (from 50 per cent).

Wholesale Price Controls

The two wholesale controls – water and wastewater – share a number of common features which are described below:

(i) K Factor

The wholesale controls are revenue caps with the amount of revenue that can be collected, in each control, limited to the previous year's revenue cap increased by the sum of the percentage movement in the RPI plus K, a company specific adjustment factor. The size of a Regulated Company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment programme, its cost of capital as determined by Ofwat, and its operational and environmental obligations, together with Ofwat's judgement as to the scope for it to improve its efficiency. It is an annual, variable factor and as such, it may be a different number in different years.

(ii) Regulatory Capital Value

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying wholesale price controls set at Periodic Reviews, being the value of the capital base of the relevant price control for the purposes of calculating the return on capital element of the determination of K. The value of the regulatory capital value to investors and lenders is protected against inflation by adjusting the value each year by RPI (to be transitioned to CPIH from 2020).

In addition, Ofwat's projections of regulatory capital value takes account of the assumed net RCV additions in each year of a Periodic Review Period, which are a function of the total expenditure over the period and the pay-as-you-go ("**PAYG**") ratio. The PAYG ratio is established for each price control in the Final Determination and reflects the proportion of total expenditure that is remunerated in the current price control period with the remaining non-PAYG totex added to the RCV to be remunerated in future periods. The remuneration of the RCV occurs through the RCV run-off, where the RCV is reduced by the RCV run-off that is included within the revenue cap.

(iii) Totex Menu

The totex menu is a mechanism that provides an incentive on Regulated Companies to reduce their wholesale costs and improve efficiency. Companies make a choice for each of their wholesale controls, following the Final Determination using the menu published by Ofwat that determines three factors – the level of allowed expenditure, the level of additional income and a totex sharing rate. These factors operate together to provide an incentive to maximise totex efficiency. The menu choice is essentially the ratio of expected expenditure over the price control period to Ofwat's estimated baseline expenditure. Once this choice is made the published menu will determine the level of allowed expenditure as the 25:75 interpolation between the two, the level of additional income and the totex sharing rate (the proportion of any over or under spend of totex that is shared with customers). The Final Determination includes an implied menu choice and so the menu choice does not affect revenues during the following AMP. Instead adjustments are made, as appropriate, in the adjustments that flow into the next price control.

(iv) Wholesale Revenue Forecasting Incentive Mechanism ("WRFIM")

Ofwat has introduced a WRFIM, which replaces the previous revenue correction mechanism and provides an incentive to set tariffs so as to closely recover the allowed revenue while also providing a protection mechanism so that any over or under recovery of revenue can be carried forward to the next year. The WRFIM allows a deadband where revenue forecasting errors of between + 2 per cent. of allowed revenue attract no penalties. Should forecasting errors exceed 2 per cent., a penalty interest rate is applied to the amount of the error and this interest charge will be deducted from allowed revenue at the price review in 2019. In the case where forecasting errors exceeded 6 per cent. of allowed revenue, SWS would have to furnish an explanation to Ofwat in addition to incurring the penalty interest rate charge.

Retail Household Price Limit

The retail household control is materially different in structure to the wholesale controls. The retail household control does not have an RCV or K factor and is not indexed to RPI. Instead the control is based on an overall average cost to serve limit, which is a weighted average of the average cost to serve for a number of customer types i.e. meter or unmetered and whether water, wastewater or both. The limit is set for each year of the control and is set in nominal terms.

Retail Non-Household Price Limit

The retail non-household control is different to both the wholesale control and the retail household control. It does not contain an RCV or K factor and is not indexed to RPI. It also does not have an overall limit on average prices. Instead the control consists of limits on the average revenue allowed in each year for specific customer types. These limits are added to the wholesale charges to provide default tariffs, which are the maximum that can be charged for each customer type, which vary according to customer volumes, in three volume bands. Prices for customers falling within the low volume band (0-5 megalitre per year, Ml/y) will continue to be regulated with default tariffs. Prices for customers in the higher volume bands (5-50 Ml/y and 50+ Ml/y) will be subject to gross margin caps.

SWS is no longer affected by the retail non-household price control following its exit from the market.

(B) PR19

In September 2018, water companies in England and Wales submitted their plans for the 2020-2025 regulatory period to Ofwat. Ofwat checked and challenged those plans, including how much companies planned to spend to deliver them.

Key Features of the AMP7 Price Limit Framework

For AMP7, Ofwat has introduced new price controls for water resources and bioresources, resulting in four wholesale price controls (Water Resources, Water Network Plus, Wastewater Network Plus and Bioresources) along with a household retail price control.

The Final Determination covers customer bill profile, costs, allowed revenues and outcomes for customers. In relation to each of these:

- The Final Determination will cut average bills by 18.4% in real terms in the 2020-25 period compared to SWS's proposed 6.7% reduction.
- The Final Determination allows wholesale totex of £3,403.4 million, which includes £855 million to invest in improvements to service, resilience and the environment.

- Allowed return is 2.96% (on a CPIH basis, 1.96% on an RPI basis) at the appointee level. After adjustment for the retail margin, the allowed return on capital for the wholesale price controls is 2.92% (on a CPIH basis, 1.92% on an RPI basis). The allowed retail margin for the household retail control is 1.0%.

Performance commitments, performance commitment levels and outcome delivery incentives were developed during the price review for each price limit following extensive customer engagement and review by Ofwat. The outcomes apply at the Regulated Company and describe the outcomes that customers wish to be delivered. The SWS outcomes are set out in Chapter 5 "*Description of the SWS Financing Group*".

For each outcome a series of appropriate performance commitments are established that set out the levels of performance that will be targeted in the current price limit period. Ofwat specified 15 'common' performance commitments, which all companies were required to include in their plans. These reflected the priorities that were common to all customers, such as leakage, service interruptions or sewer flooding. Other 'bespoke' performance commitments were proposed by companies to reflect local priorities. To incentivise delivery of these commitments, ODIs, either financial or reputational, are developed for each commitment. Where financial incentives apply, the unit rate of reward or penalty, and the bands in which the incentive applies, are also established. Companies will report on their performance against all incentives (financial and non-financial) on an annual basis. Where financial rewards or penalties are accrued in any year, they are reflected in allowed revenues two years later.

Ofwat also introduced two new customer satisfaction measures – C-MeX and D-MeX. C-MeX is a measure of customers satisfaction and replaces Ofwat's previous satisfaction measure, SIM. C-MeX carries a maximum reward and penalty of 12% of retail revenues. D-MeX measures the service provided to developers wishing to connect to the water or wastewater network. The maximum reward is 2.5%, and the maximum penalty 5%, of developer services revenue.

Wholesale Price Controls

(a) Common Features

The four wholesale controls share a number of common features which are described below:

(i) Limit on revenues

With the exception of the bioresources control, the wholesale controls are revenue caps with the amount of revenue that can be collected, in each control, limited to the previous year's revenue cap increased by the sum of the percentage movement in the CPIH plus K, a company specific adjustment factor. The size of a Regulated Company's K factor (which can be positive, negative or zero) reflects the scale of its expenditure programme, its cost of capital as determined by Ofwat, and its operational and environmental obligations, together with Ofwat's judgement as to the scope for it to improve its efficiency. It is an annual, variable factor and as such, it may be a different number in different years. The bioresources control is derived in a similar way but is expressed as an allowed revenue per unit of sludge treated. The allowed revenue per unit is different in each year, reflecting the underlying cost structure.

(ii) Regulatory Capital Value

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying wholesale price controls set at Periodic Reviews, being the value of the capital base of the relevant price control for the purposes of calculating the return on capital element of the price control. The value of the regulatory capital value to investors and lenders is protected against inflation by an annual adjustment. This annual adjustment is transitioning from RPI to CPIH during AMP7, with 50% of the opening RCV being inflated by RPI and 50% by CPIH.

In addition, Ofwat's projections of regulatory capital value takes account of the assumed net RCV additions in each year of a Periodic Review Period, which are a function of the total expenditure over the period and the pay-as-you-go ("**PAYG**") ratio. The PAYG ratio is established for each price control in the Final Determination and reflects the proportion of total expenditure that is remunerated in the current price control period with the remaining non-PAYG totex added to the RCV to be remunerated in future periods. The remuneration of the RCV occurs through the RCV run-off, where the RCV is reduced by the RCV run-off that is included within the revenue cap.

(iii) Cost sharing

Companies have an incentive to reduce their wholesale costs and improve efficiency. Where they reduce costs below the assumptions made by Ofwat in setting price limits they retain a share of the outperformance, the remainder being shared with customers. Conversely, where companies spend more than assumed by Ofwat they can share a proportion of the overspend with customers. The rate of sharing is determined by Ofwat within the final determination, based on Ofwat's view of efficient costs compared to those included in company plans. For AMP7, the sharing rate determined for Southern Water is 36:64, meaning that 36% of any underspend and 64% of any overspend is borne by the company, the remaining share being borne by customers. Cost sharing is affected through an adjustment to revenues and/or RCV at the subsequent price review.

The bioresources price control has no cost sharing. Any under or overspends are borne entirely by the company.

(iv) Revenue Forecasting Incentive ("RFI")

For AMP6 Ofwat introduced a Revenue Forecasting Incentive mechanism, which replaced the previous revenue correction mechanism and provided an incentive to set tariffs so as to closely recover the allowed revenue while also providing a protection mechanism so that any over or under recovery of revenue can be carried forward to the next year. For Water Resources and both Network Plus price controls, the same mechanism applies in AMP7. There is no equivalent mechanism for Bioresources. The RFI allows a deadband where revenue forecasting errors of between + 2 per cent. of allowed revenue attract no penalties. Should forecasting errors exceed 2 per cent., a penalty interest rate is applied to the amount of the error and this interest charge will be deducted from allowed revenue in subsequent years. In the case where forecasting errors exceeded 6 per cent. of allowed revenue, SWS would have to furnish an explanation to Ofwat in addition to incurring the penalty interest rate charge.

(b) Individual Wholesale Price Controls

The four individual wholesale price controls are described in more detail below:

(i) Water Resources Price Control

The scope of the water resources price control covers all activities associated with water resource management. The activities include abstraction licenses, raw water abstraction, raw water transport, raw water storage and ancillary activities, with all water networks and treatment being excluded.

SWS's AMP7 strategy for water resources includes reducing the nitrate concentration in treatment and raw water through the "Network 2030" plan, cleaning reservoirs and surface water reservoirs, using eel screens for river water abstraction and a "Water Resources Management Plan" to invest in desalination and explore water reuse projects. The strategy provides a further £80 million for strategic water solutions from Ofwat which is contingent on passing through Ofwat's funding gates.

The totex for water resources for AMP7 is £158 million, with £111 million applicable for cost sharing. The table below ("**Table 1**") illustrates the allowed AMP7 expenditure in respect of water resources:

Year	Fast Money (£m)	Slow Money (£m)
2020 – 2021	14.9	7.0
2021 – 2022	14.7	6.6
2022 – 2023	15.0	6.1
2023 – 2024	14.8	7.7
2024 – 2025	14.5	10.2

SWS has Key Performance Commitments to fulfil. These are shown in the table ("**Table 2**") below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Per capita consumption ("PCC")	128.4	127.11	124.12	121.92	120.36
Abstraction Incentive mechanism ("AIM")	-15	-15	-15	-15	-15

Further to Table 2 above, the PCC has penalties of £178k per litre per head per day ("**l/h/d**") and rewards of £70,000 per l/h/d with enhanced rewards at £356,000 per l/h/d. The AIM has penalties of £634,000 per l/h/d) and rewards of £511,000 per l/h/d. The AIM has a cap and collar at -14 and -16 in each year.

(ii) Water Network Plus Price Control

The scope of the water network plus price control covers all activities associated with the water network and water treatment. The activities include raw water transport, raw water storage, water treatment, treated water distribution, with all water resource activities excluded.

SWS's AMP7 strategy for water network plus includes upgrading large water treatment works such as the locations in Otterbourne and Testwood, having smart networks to provide calmer networks (which includes mains renewal to reduce leakage, bursts, interruptions and discolouration), reducing the nitrate concentration in treatment and raw water through the "Network 2030" plan, investment in surface water reservoirs, investment in growth by to fund new mains and networks for large growth of connections and diversions and a plan to. deliver the Water Industry National Environment Programme (the "**WINEP**").

The totex for water network plus for AMP7 is £1,016 million, with £931 million applicable for cost sharing. The table below ("**Table 3**") illustrates the allowed AMP7 expenditure in respect of water networks:

Year	Fast Money (£m)	Slow Money (£m)
2020 – 2021	72.5	124.6
2021 – 2022	71.0	127.4
2022 – 2023	70.0	113.6
2023 – 2024	70.2	98.7
2024 – 2025	68.6	114.4

SWS has Key Performance Commitments to fulfil. These are shown in the table ("**Table 4**") below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Compliance risk index ("CRI")	2	2	2	2	2
Water supply interruptions	06:30	06:08	05:45	05:23	05:00
Leakage	102.2	98.76	95.61	92.46	89.31

Further to Table 4 above, the CRI has a penalty-only ODI of £628k per index point. Water supply interruptions has penalties at £244k per minute and rewards of £244k per minute. Leakage has penalties of £256k per mega litres per day ("**Ml**") and rewards are £137k per Ml.

Wastewater Network Plus Price Control

The scope of the wastewater network plus price control covers all activities associated with wastewater networks and wastewater treatment. The activities include the collection of foul sewage, surface water and highway drainage, sewage treatment, disposal and sludge liquors.

SWS's AMP7 strategy for wastewater network plus includes the delivery of the WINEP, the delivery of a "Pollution Reduction" plan to target low complexity interventions at the high priority locations (including health checks and remediation, power resilience checks, auto resets and network cleaning), implementation of a "Flooding Reduction" plan with the main focus being on external flooding (including sewer hotspot jetting, low cost mitigation solutions, fat, oil and grease (FOG) campaigns, investigation and root cause analysis) and the delivery of a control room transformation and maintenance excellence programme.

The totex for wastewater network plus for AMP7 is £2,029 million, with £2,000 million applicable for cost sharing. The table below ("**Table 5**") illustrates the allowed AMP7 expenditure in respect of wastewater networks:

Year	Fast Money (£m)	Slow Money (£m)
2020 – 2021	134.5	222.3
2021 – 2022	131.7	317.9
2022 – 2023	129.9	330.9
2023 – 2024	126.8	270.8
2024 – 2025	123.6	211.0

SWS has Key Performance Commitments to fulfil. These are shown in the table ("**Table 6**") below:

	2020-21	2021-22	2022-23	2023-24	2024-25
Internal sewer flooding	1.68	1.63	1.58	1.44	1.34
External sewer flooding	4412	4141	3887	3702	3525
Pollution incidents	24.51	23.74	23.00	22.40	19.50
Treatment works compliance	99%	99%	99%	99%	99%

Further to Table 6 above, internal sewer flooding has penalties of £5.557 million per incident per 10,000 properties and rewards of £5.557 million per incident per 10,000 properties. The external sewer flooding has penalties of £7.3k per incident and rewards of £4.8k per incident. Pollution incidents have penalties of £315k per incident per 10,000km and rewards of £270k per incident per 10,000km with treatment works compliance having a penalty, ODI only, of £10 million per percentage.

(iii) Bioresources Price Control

The scope of the bioresources price control covers all activities associated with sludge transport, treatment and disposal. The activities include energy generation and sludge thickening to greater than 10%, with all wastewater networks, treatment activities and return liquors excluded.

SWS's AMP7 strategy for bioresources includes optimising existing bioresources operations (including the refurbishment of digesters to maintain treatment capability and ensure safe operation), upgrading combined heat and power (CHP) assets and increasing renewable generation through more efficient technology, providing capacity for growth by unlocking operational constraints through optimising transport and the provision of new sludge reception facilities at Budds Farm sludge treatment centre and making full use of market opportunities to support capacity requirements, with an agreement in principle with Wessex Water to import and export sludge at two sites: Millbrook sludge treatment centre and Fullerton sludge treatment centre.

The totex for bioresources for AMP7 is £200 million and there is no cost sharing. The AMP7 allowed expenditure in respect of bioresources is shown in the table below ("**Table 7**"):

Year	**Fast Money (£m)**	**Slow Money (£m)**
2020 – 2021	20.3	15.1
2021 – 2022	19.9	19.8
2022 – 2023	19.9	37.0
2023 – 2024	19.6	16.1
2024 – 2025	19.1	11.0

SWS has Key Performance Commitments to fulfil. These are shown in the table ("**Table 8**") below:

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**
% renewable energy generation	21.2%	21.3%	24.0%	24.0%	24.0%
Satisfactory bioresources recycling	100%	100%	100%	100%	100%

Further to Table 8 above, renewable energy incurs penalties of £442k per percentage and rewards of £221k per percentage. Renewable energy has a cap and collar of 3% variance and satisfactory bioresources recycling is a penalty-only ODI, with a penalty of £471k per percentage.

Retail Household Price Limit

The retail household control is materially different in structure to the wholesale controls. The retail household control does not have an RCV or K factor and is not adjusted for inflation. The control sets a total recoverable revenue for each year of the AMP in nominal terms. The total recoverable revenue is adjusted for any variations in the assumed number of customers served.

The scope of the retail household price control covers all activities within the retail household business. The activities include any direct interaction with a customer such as billing, debt management, meter reading and customer side leakage, with all wholesale activities excluded.

SWS's AMP7 strategy focuses for retail includes the transition of customer services to Capita Customer Management Ltd in Rotherham which is now completed, a strategy to prioritise reducing call volumes through a step change in digital, policy and process that impacts cost to serve (CTA) and customer satisfaction and investment in updating relevant IT systems.

The totex for retail for AMP7 is £257 million, which includes a cost allowance of £261.7 million and a 1% margin. When factoring in the AMP6 retail adjustments, it means there will be a net impact of £257 million. The AMP 7 allowed retail expenditure is shown in the table below ("**Table 9**"):

Year	**(£m)**
2020 – 2021	50.1
2021 – 2022	50.9
2022 – 2023	51.6
2023 – 2024	52.3
2024 – 2025	52.9

SWS has Key Performance Commitments to fulfil. These are shown in the table ("**Table 10**") below:

	2020-21	**2021-22**	**2022-23**	**2023-24**	**2024-25**
C-MeX	-	-	-	-	-
Void properties	2.38	2.38	2.38	2.38	2.38

Further to Table 10 above, C-Mex has penalties and rewards based on each Regulated Company's comparative position in the league table - the penalties can be up to 12% of a Regulated Company's retail revenue if it is the worst Regulated Company and the median Regulated Company does not receive any penalties or rewards. Regulated Companies will incur penalties in respect of void properties at £1.2 million per percentage and rewards of £1.2 million per percentage.

(C) PR14 and PR19

PR14 and PR19 have a number of similar features.

Restrictions on the Charging

Under the WIA, Regulated Companies must charge for water supplied, or sewerage services provided, to dwellings in accordance with a Charges Scheme and must comply with any requirements prescribed by the Secretary of State. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

In April 2019, Ofwat published a letter to Regulated Companies providing advice on compliance with competition law and charging rules obligations with respect to the self-lay market for new connections. This was largely in response to several complaints over the previous 12 months in which it has been alleged that incumbent Regulated Companies, through their charges, contractual terms and/or actions, have made it difficult for self-lay providers to compete and operate efficiently in the developer services markets. The charging rules for new connection services explicitly require Regulated Companies in England to set their charges (including any income offsets) and asset payments in accordance with the principle that they should promote effective competition for contestable work. Regulated Companies are also required to publish their charges in a clear and accessible manner and explain how each charge has been calculated or derived so that it is clear what services are covered by each charge. Ofwat wrote to all incumbent Regulated Companies to remind them that, given their position of dominance in a number of markets in their appointment areas, each company has a special responsibility to ensure that its conduct in those markets does not prevent, restrict or distort competition.

Bulk Supply and Special Agreement Charges

Bulk supplies, special agreements, and access prices are special price terms that fall outside the standard tariffs that are outlined in SWS's charges schemes.

Bulk supplies are a supply of water (potable or non-potable) and/or sewerage services from one appointed company to another. They can be from:

- an incumbent water undertaker to another incumbent undertaker (also referred to as a "bulk transfer" or "water trade"); or
- an incumbent undertaker to an appointee under a NAV arrangement that serves a new development or large non-household user (a NAV is also referred to as an inset appointment).

Where a party applies to Ofwat for the bulk supply to be made or determined, Ofwat may order a supplier to enter into a bulk water supply agreement, under such terms and conditions as Ofwat specifies. Ofwat can only make an order if it is satisfied that the bulk supply is necessary for securing the efficient use of water resources and where it is satisfied that the parties are unable to come to any agreement themselves.

The Water Act 2014 enabled Ofwat to create codes relating to bulk supply pricing. In May 2018, Ofwat published its final guidance on "Bulk Charges for NAVs". As a supplement to the bulk supply pricing principles which Ofwat published in 2011, the guidance document sets out its approach when determining bulk charges set by an incumbent water company for bulk services provided to a NAV in England and Wales.

Interim Determination of a Price Limit

Under certain circumstances both the Regulated Company and Ofwat have the opportunity to apply for an Interim Determination between Periodic Reviews. An application for an Interim Determination can be made in respect of the following:

(a) ***Notified Item***

The terms of what items and costs are reasonably recoverable (including thresholds for triviality and materiality) are set out in detail in Condition B of the Licence.

A Notified Item is any item formally notified by Ofwat to the Regulated Company as not having been allowed for (either in full or at all) in determining the price limit. Ofwat only provided for one general notified item in the determination of price limits for the Regulated Companies in the AMP6 Period, which was to allow for increases in wholesale water business rates following the 2017 revaluation. Ofwat provided for two company-specific notified items in the determination of Southern Water's price limits for the AMP7 Period. These related to two water resources schemes which in the final determination Ofwat assumed would be delivered by a third party under the Direct Procurement for Customers (DPC) mechanism. The Notified Item would apply where instead it was demonstrated that it would be best value for customers for these schemes to be delivered by Southern Water.

(b) ***Relevant Changes of Circumstances***

Relevant Changes of Circumstance are defined in the licences. Such changes include:

(i) the application to the Regulated Company of any new or changed legal requirement including any legal requirement ceasing to apply, being withdrawn or not being renewed (to the extent that the legal requirement applies to the Regulated Company in its capacity as a water or wastewater undertaker);

(ii) any difference in value between actual or anticipated proceeds of disposals of Protected Land and those allowed for at the last Periodic Review or IDOK;

(iii) where, on an IDOK, allowance has been made for taking steps to secure compliance or facilitate compliance with a legal requirement or achieve a service standard and the Regulated Company has failed to take those steps and: (a) as a result, failed to spend the full amount which it was assumed would be spent taking into account savings which may have been achieved by prudent management; and (b) the stated purpose has not otherwise been achieved; and (in some licences); and

(iv) movements in construction prices so as to differ from those assumed in the determination.

The conditions of the licences specify a materiality threshold which must be reached before any adjustment can be made. Condition B of the Licence sets out in detail the step-by-step methodology which Ofwat is required to apply.

(c) ***Substantial Effects Clause***

In addition, under the Substantial Effects Clause in the licence of a Regulated Company, the Regulated Company or Ofwat is permitted to request price limits to be reset if its Appointed Business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For this purpose, the financial impact is calculated in the same way as for the materiality threshold above except that the 10 per cent. threshold is replaced by a 20 per cent. threshold.

Changes to Indexation

For PR19 (the next price limit period), Ofwat announced a move from RPI to CPIH indexation of prices because RPI is a more volatile measure of inflation than CPIH. CPIH indexation will apply to 100 per cent. of revenue from the beginning of AMP7 (1 April 2020). From the beginning of AMP7, CPIH indexation will apply to 50 per cent. of the existing RCV at 1 April 2020 plus all new RCV additions from then onwards. The remaining 50 per cent. of the RCV at 1 April 2020 will continue to be indexed to RPI. Ofwat’s precise approach to RCV price indexation beyond 2025 has not been fully detailed.

To accommodate the use of different price indices, Ofwat has calculated a nominal weighted average cost of capital (“**WACC**”), which is then converted into a RPI stripped WACC and CPIH stripped WACC which are then applied to the two different elements of RCV that are indexed to RPI and CPIH, respectively, to determine the return on RCV element of revenue: (i) a real RPI stripped WACC (2.3 per cent.) is applied to the RPI indexed part of the RCV; and (ii) a real CPIH stripped WACC (3.3 per cent.) is applied to the CPIH indexed part of the RCV.

References to the CMA

If Ofwat fails within specified periods to make a determination at a Periodic Review or in respect of an IDOK or if the Regulated Company disputes its determination, the Regulated Company may require Ofwat to refer the matter to the CMA for determination by it after making an investigation. The CMA must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by Ofwat. The decisions of the CMA are binding on Ofwat. Bristol Water plc was the only Regulated Company to dispute the Final Determination for the AMP6

Period. The CMA issued its final determination of the challenge by Bristol Water plc to Ofwat's price control determination in October 2015. For the AMP7 Period Northumbrian Water Limited, Yorkshire Water Services Limited, Bristol Water plc and Anglian Water Services Limited have each disputed the Final Determination and the final determination of the challenges is pending.

Other Restrictions on Charging

Under the WIA, Regulated Companies must charge for water supplied, or wastewater services provided, to dwellings in accordance with a charges scheme which must comply with Ofwat charging principles and any requirements prescribed by the Secretary of State by regulations. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

In April 2019, Ofwat published a letter to Regulated Companies providing advice on compliance with competition law and charging rules obligations with respect to the self-lay market for new connections. This was largely in response to several complaints over the last 12 months in which it has been alleged that incumbent Regulated Companies, through their charges, contractual terms and/or actions, have made it difficult for self-lay providers to compete and operate efficiently in the developer services markets. The charging rules for new connection services explicitly require Regulated Companies in England to set their charges (including any income offsets) and asset payments in accordance with the principle that they should promote effective competition for contestable work. Regulated Companies are also required to publish their charges in a clear and accessible manner and explain how each charge has been calculated or derived so that it is clear what services are covered by each charge. Ofwat wrote to all incumbent Regulated Companies to remind them that, given their position of dominance in a number of markets in their appointment areas, each company has a special responsibility to ensure that its conduct in those markets does not prevent, restrict or distort competition.

PR14 and PR19 Reconciliation Rulebook

On 4 October 2016, Ofwat issued its final amended reconciliation rulebook, which formed part of the price review process which concluded in December 2014. The reconciliation rulebook set out how Ofwat proposed to reconcile incentives which were set as part of the 2014 Final Determination and reconcile company performance at the price review in 2019. A similar rulebook is expected to be published in respect of the PR19 final determination, during the course of 2020. The rulebook will set out the detailed rules and associated models for each of the incentive mechanisms set as part of the final determination. The rulebook and models provide a degree of predictability over the application of these metrics both within AMP7 and at PR24.

Initial Assessment of Business Plans and Draft Determinations:

Price Review 2019:

The timeline for the PR19 process was as follows:

(i) Initial Assessment of Plans ("**IAP**") – 31 January 2019

(ii) Draft Determination ("**DD**") – 18 July 2019

(iii) Company response to Draft Determination – 30 August 2019

(iv) Final Determination ("**FD**") – 16 December 2019

IAP

Ofwat conducted an initial assessment of the Regulated Companies' business plans, against nine test areas (engaging customers; addressing affordability and vulnerability; delivering outcomes for customers; securing long-term resilience; targeted controls, markets and innovation; securing cost efficiency; aligning risk and return; accounting for past delivery; and securing confidence and assurance) and three key characteristics (quality, ambition, and innovation) and categorised Regulated Companies' business plans into four categories (significant scrutiny, slow track, fast track or exceptional).

Regulated Companies with exceptional and fast-track business plans receive a permitted financial uplift over the price review period. For both categories, the Regulated Companies decide whether to take the incentive payment as additional revenue or as an uplift to their RCV. In either case, Regulated Companies decide how to split this reward between the water network plus, water resources and, where relevant, wastewater network plus price controls. Regulated Companies whose plans were assessed to need significant scrutiny could have been subject to financial penalties over the price review period.

At the end of January 2019, Ofwat revealed the results of its initial assessment of these plans: https://www.ofwat.gov.uk/regulated-companies/price-review/2019-price-review/initial-assessment-of-plans/ .

SWS was placed in the "significant scrutiny" category, along with three other Regulated Companies, who were required to make more efficiency gains and provide further robust evidence of its ability to deliver what is acknowledged to be a highly ambitious plan. Ten companies were placed in the "slow track" category and three were placed in the "fast track" category. SWS submitted its revised business plan on 1 April 2019.[18] In its Final Determination, Ofwat decided not to apply punitive cost sharing rates to the "significant scrutiny" companies, meaning the penalty would be reputational only.

Draft Determination ("DD")

Ofwat published its DD on the updated plan on 18 July 2019: https://www.ofwat.gov.uk/regulated-companies/price-review/2019-price-review/draft-determinations/

Ofwat noted SWS's positive engagement since the IAP. While SWS remained in significant scrutiny the impact remained reputational only. Ofwat said they were not minded to apply any cap to SWS's ODI rewards as a result of this classification, and further progress in its response to the DD could avoid any reduction in SWS's ability to share costs with customers.

SWS DD Representations

SWS submitted its DD representations to Ofwat on 30 August 2019.

The representations can be found here: https://www.southernwater.co.uk/our-business-plan-2020-25.

The executive summary for the DD representations can be found here https://www.southernwater.co.uk/media/2720/dd-executive-summary-final-publication.pdf

The original business plan executive summary submitted in August 2018 can be found here

https://www.southernwater.co.uk/media/1847/01_exec_summary_.pdf

Adjustments to Revenue to Reflect Performance: The PR19 price control methodology will also introduce a revised system for incentivising performance service by SWS. The ODIs will encourage SWS to meet its performance commitments, rewarding the company if it exceeds its commitment and penalising it if it fails to achieve them.

Ofwat has set an expectation that Regulated Companies' ODI proposals will drive an expected range of ODI out/underperformance of ±1-3 per cent. of return on regulated equity ("**RoRE**") (from PR14 level of ±1 per cent. to ±2 per cent.). This range is not capped, but Ofwat expects Regulated Companies to propose approaches to protect customers in case their ODI payments turn out to be much higher than their expected RoRE range. Ofwat will, for example, replace the existing SIM with C-MeX and is creating a new incentive mechanism, D-

18 https://www.southernwater.co.uk/our-story/our-plans-2020-25/our-business-plan-2020-25

MeX. C-MeX and D-MeX are both financial and reputational incentives to improve the satisfaction of Regulated Companies' residential and new connections customers, respectively.

Final Determination ("FD")

Ofwat published the FD on 16 December 2019 which can be accessed here: https://www.ofwat.gov.uk/publication/pr19-final-determinations-southern-water-final-determination/.

SWS accepted the FD on 14 February 2020. The SWS Board has concluded that referring the determination to the CMA for an appeal would cause significant disruption, involve substantial costs, and would not be in the ultimate interest of SWS's customers.

In the FD, Ofwat made a number of alterations including the following:

(a) The WACC is 2.96%, CPI-real; 1.96% RPI. This is a 23bps reduction from the DD;

(b) The overall totex allowance was increased from £3,339 million at DD to £3,403 million at FD;

(c) The SWS pay-as-you-go percentage increased from 41.6% at DD to 44.5% at FD;

(d) RCV growth was reduced from 12.31% at DD to 10.66% at FD;

(e) SWS have 47 performance commitments, of which 31 have ODI penalties and/or rewards associated with them;

(f) The most financially significant ODIs are C-MeX, internal sewer flooding, external sewer flooding, treatment works compliance, leakage and CRI;

(g) The reduction in average water and wastewater bills is 18%. Ofwat have re-profiled bill reductions to target flat nominal bills; and

(h) The Regulatory Settlement has been reflected in SWS's wastewater revenue allowance. In 2020-21 allowed revenues are reduced by £35.7 million and in 2021-25 SWS's allowed revenues have been reduced by £24 million each year.

Following SWS's acceptance of the FD on 14 February 2020, the Rating Agencies who currently assign the ratings set out on page vi of this Prospectus may, depending on SWS's delivery of its commitments under the FD or for any other reason, take rating action. If such action were to involve a rating downgrade by certain Rating Agencies, a credit rating trigger event ("CRTE") would arise pursuant to the credit rating downgrade trigger event described in Chapter 7 "Summary of the Financing Agreements" under "Common Terms Agreement – Trigger Events, paragraph (ii) (Credit Rating Downgrade)". A CRTE would have the consequences described in Chapter 7 "Summary of the Financing Agreements" under "Common Terms Agreement – Trigger Event Consequences".

Comparison of the DD and the FD

	Draft Determination (DD)	Final Determination (FD)	Movement
		(£m)	
Allowed Revenues	3,708.10	3,689.10	(19.00)
Wholesale Totex allowance (Gross)	3,339.10	3,403.40	64.30
Retail allowance (nominal)	257.60	261.70	4.10

	Draft Determination (DD)	Final Determination (FD)	Movement
		(£m)	
		(%)	
PAYG (fast money)	41.60%	44.50%	2.90%
Cost of Capital –Wholesale WACC in CPIH terms	3.08%	2.92%	(0.16%)
RCV Growth (2020-25)	12.31%	10.66%	(1.65%)

Drinking Water and Environmental Regulation

EU Law Generally

The activities of Regulated Companies are affected by the requirements of EU Directives which provide a common framework for stewardship of the environment and social considerations, and legislation and regulation at the national and local level. The ECJ has held that EU law has priority over national law. EU Directives are known as secondary law. They are binding as to the results to be achieved, but the means of implementation and transposition into national laws are a matter for each EU member state. The EU Directives include the Water Framework Directive, the Urban Waste Water Treatment Directive and the Industrial Emissions Directive, which are discussed in more detail below. Despite the result of the June 2016 referendum, until any of the following EU Directives are repealed or the UK formally leaves the EU having undergone the process set out in Article 50 of the Treaty of Rome, EU law remains in full force and effect in the UK. Investment consequences for Regulated Companies of either EU wide or UK focused reviews are taken into account in the Periodic Review process, principally through their inclusion in the EA's National Environment Programme ("**NEP**").

SWS maintains a "Legal Register" which lists legislation relevant to the ISO 14001 certification of its environmental management system.

Water Framework Directive

Directive 2000/60/EC establishing a framework for community action in the field of water policy (the "**Water Framework Directive**") was adopted in 2000. It is intended to rationalise existing EU water legislation in order to provide a framework for the protection and improvement of ground, inland and coastal waters from hazardous substances and to promote sustainable water consumption. The Water Framework Directive was transposed into English and Welsh law by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 which came into force on 2 January 2004 (and has since been amended), as well as the River Basin Districts Typology, Standards and Groundwater Threshold Values (Water Framework Directive) (England and Wales) Direction 2010 (the "**Typology Direction**") and the River Basin Districts Surface Water and Groundwater Classification (Water Framework Directive) (England and Wales) Direction 2009).

The Water Framework Directive also has "daughter Directives" of which the one most likely to drive substantial investment is that regarding Environmental Quality Standards (2008/105/EC, usually referred to as the "Priority Substances Directive" and discussed further below). The Water Framework Directive has been amended by 2013/39/EU to include additional parameters and continues to represent a compliance (and hence investment) risk in that full compliance might only be achieved by the installation of the equivalent of drinking water treatment at the sewage treatment works. On 31 July 2014, Defra published ministerial guidance on river basin planning for the EA and on 18 February 2016, Defra published a series of river basin management plans.

The Directive is set out over three "six-year" cycles, the first of which commenced in December 2009 with the publication of River Basin Management Plans. The 2015 plan was published in February 2016. These plans included programmes of measures that Regulated Companies and other parties will need to undertake to achieve the objectives of the Water Framework Directive. These require specific actions on the part of Regulated Companies, to be undertaken within defined timescales. These actions include improving sewage works at various locations, and working with the EA to modify abstraction licences for certain areas to achieve more sustainable levels of abstraction. These programmes of measure are likely to cause Regulated Companies to incur material expenditure. SWS is a partner in a number of catchments under the South East River Basin Management Plan 2015.

The EA is responsible for monitoring and reporting on the objectives of the WFD on behalf of government. The EA will work with Ofwat, local government, non-governmental organisations ("**NGOs**") and a wide range of other stakeholders including local businesses, water companies, industry and farmers in order to achieve the objectives under the Water Framework Directive.

Some measures specific to the Water Framework Directive have been agreed with the EA through the Periodic Review process for 2015 to 2020 and the final River Basin Management Plans published in February 2016. The list of measures is substantially less than was originally anticipated, with a risk of an expanded list of requirements in subsequent periods. Overall, it is expected to have a significant impact on Regulated Companies in the longer term. For example, it may result in increased limitations on abstraction licences and a restriction on discharge consents, particularly in terms of additional stringent consent limits for trace chemicals, such as pharmaceutical residues, that are not easily or adequately removed by current treatment processes. This could cause Regulated Companies to incur material expenditure. As there is a timetable mismatch between the Water Framework Directive and Periodic Review process, there is a risk that further investment could be required within Periodic Review periods.

To comply with the Water Framework Directive, Member States have to ensure all their waters achieve at least "good status" by 2015, or, on the grounds that achieving a 'good' status is either disproportionately costly or technically unfeasible, set out alternative standards and/or a timetable for the achievement of these by no later than 2027.

Industrial Emissions Directive and H4 Odour Guidance

The Industrial Emissions Directive ("**IED**") came into force on 6 January 2011 and has been implemented through the Environmental Permitting Regulations regime in England and Wales (the "**Environmental Permitting Regulations**"). To date the Government has continued with its view that anaerobic digestion plants with a capacity of less than 100 tonnes of waste per day at wastewater treatment works are exempt from the IED. If this approach were to change, then it is probable that anaerobic digestion plants would require a bespoke Environmental Permit, with attendant cost and additional requirements.

Even if anaerobic digestion plants are not subject to elevated requirements under the IED, it is possible that they could be regulated as a waste operation. Although sewage treatment is excluded, anaerobic digestion may be viewed by the EA as a separate "waste" activity and therefore captured under general waste legislation, again requiring a bespoke permit. The Environmental Permitting Regulations: H4 odour management guidance (the "**H4 guidance**") introduces, in any event more stringent odour requirements and management plans for existing sites that have Environmental Permits. Under the H4 guidance, operators of sites with Environmental Permits are required to assess the level of odour emanating from their sites based on their frequency, intensity, duration and offensiveness, as well as the sensitivity of receptors. On the basis of such assessment, an operator must implement appropriate control measures to minimise the odour and suggested control measures are set out in the H4 guidance. If the odour levels are unreasonable (despite having used appropriate measures), further action may be required or the operator may be required to cease operations.

Groundwater Directive

A groundwater directive (Directive 2006/118/EC) (the "**Groundwater Directive**") was adopted in December 2006. Under the Groundwater Directive, Member States are required to monitor and assess groundwater quality on the basis of common criteria and to identify and reverse trends in groundwater pollution. If groundwater quality is improved, Regulated Companies may benefit from reduced costs in cleaning abstracted water. However, there is also a possibility that Regulated Companies may have to bear part of the costs of complying with the new Directive. Member States had until 16 January 2009 to bring into force laws, regulations and administrative provisions to implement the new Directive. The UK implemented the Groundwater Directive through the Environmental Planning Regulations 2016 (as amended). This regime may generate compliance costs to meet the requirements to protect, enhance and restore groundwater bodies and to reverse any significant upward trends of pollutants.

Urban Waste Water Treatment Directive

The Urban Waste Water Treatment Directive (91/271/EEC) ("**UWWTD**") relates to the collection, treatment and discharge of urban wastewater. The UWWTD lays down minimum requirements for the treatment of municipal wastewater and for the disposal of sewage sludges which arise from the treatment process and aims to control the discharge of industrial wastewaters. Receiving waters are classified according to their "sensitivity" to nutrient enrichment, with "sensitive" waters being subject to more stringent treatment requirements. The UWWTD was transposed into UK legislation by the Urban Waste Water Treatment Regulations 1994 (as amended).

The European Commission commenced infraction proceedings against the UK alleging a failure to correctly implement the UWWTD, alleging that the UK has inaccurately designated "sensitive" waters. Following the case being referred to the ECJ, a judgment was handed down on 10 December 2009 which found that the UK was not in breach of the UWWTD. This was a significant decision, as had the finding not been in the UK's favour, Regulated Companies may have been required to make material investment in further treatment processes, such costs which would have in due course been expected to be funded through the normal Ofwat price setting mechanism. The European Commission commenced new infraction proceedings against the UK in June 2010 relating to untreated wastewater discharges at combined sewer overflows in five specific localities (London, Whitburn, Beckton, Crossness and Mogden). None of these sites is a SWS group site. This case was also referred to the ECJ and this time, in October 2012, the ECJ held that the UK was in breach of the UWWTD by failing to ensure that appropriate systems were in place for the collection of urban wastewater in London and Whitburn and for the treatment of urban wastewater at the Beckton, Crossness and Mogden treatment plants. In January 2019, the European Commission issued the UK with a last reminder to comply with the decision before it refers the case back to the ECJ and request financial sanctions. At the time, a DEFRA spokesperson commented that UK compliance was at or above EU average levels and that the Government was considering its response.

Bathing Waters Directive

The Bathing Waters Directive (2006/7/EC) was adopted and published early in 2006 and was transposed into UK law by the Bathing Water Regulations 2008, which came into force on 14 May 2008.

The main objective of this directive is to improve public health protection, while taking account of changes in science and technology and bathing water management since the original 1976 Directive was adopted. The directive, which was revised in 2015, sets four standards of water quality (excellent, good, sufficient and poor). Key aspects of the directive include an obligation to meet a much tighter minimum bathing water quality standard, rationalisation of the water quality parameters to be monitored, updated rules for the frequency of sampling and improved provision of information to the public concerning bathing water quality.

Water Quality Directive

The EU's Directive on the Quality of Water intended for Human Consumption (98/83/EC) (the "**Drinking Water Directive**") sets standards for water intended for drinking, food preparation or other domestic purposes and has been implemented by the Water Quality Regulations, which came into force in full on 1 January 2004. The relevant regulator for the purposes of the Water Quality Regulations is the DWI. The Water Quality Regulations were amended in 2007 introducing the requirement for wider catchment risk assessments and a Drinking Water Safety Plan ("**DWSP**") approach to safeguarding the quality of drinking water supplies. As of 11 July 2018, the Water Quality Regulations were amended by the Water Supply (Water Quality) (Amendment) Regulations 2018, in order to bring them in line with changes made to the Drinking Water Directive. Where standards are not being met, the Secretary of State is under a duty to take enforcement against the supplier. However, Regulated Companies may submit undertakings, Regulation 28 Notices or apply for an authorised departure from the standards to the Secretary of State which detail steps designed to secure or facilitate compliance with the standards. If satisfied with the steps suggested, the Secretary of State is not required to take further enforcement action and the Secretary of State has stated that enforcement action will only be taken against Regulated Companies in very limited circumstances where such companies are adhering to their undertakings and Notices. Under the WIA, it is a criminal offence for a Regulated Company to supply water that is unfit for human consumption.

In 2018, SWS continued to perform well against the current DWI water quality metric Mean Zonal Compliance ("**MZC**") which is used as the ODI by OFWAT. In the next AMP, OFWAT will use DWI's new water quality metric Compliance Risk Index ("**CRI**"). DWI's published CRI scores for 2018 show that SWS's performance had deteriorated from 2017 and was the second worst in the industry. SWS has developed a DWI supported transformation programme "Water First" to improve water quality and its CRI score. Water First has a number of work streams looking at staff training and competency, catchment, water treatment and distribution, DWSP and site hazard reviews ("**HazRev**"), monitoring and customer services. Although the programme still has several years to run the DWI included the following comment in their 2018 annual report:

"The company approach of a fully integrated review of catchment, operational and asset-based hazards is noted as an example of good practice, along with applying the methodology through the development of their Water and Wastewater Risk Framework. This approach is welcomed and is showing real outcome improvements clearly evident in a sharp decline in the RRI [Relative Risk Index] to an expected level."

Habitats and Birds Directives

Directive 92/43/EEC on the conservation of natural habitats and wild flora and fauna ("**Habitats Directive**") and Directive 2009/147/EC on the conservation of wild birds ("**Birds Directive**") (the codified version of its predecessor Directive 79/409/EEC) establish a network of areas protected by designation across Europe called "Natura 2000" to conserve endangered habitats classified as special protection areas ("**SPA**") under the Birds Directive and Special Areas of Conservation ("**SAC**") under the Habitats Directive. Once a site is designated, Member States must take steps to avoid the deterioration of habitats and disturbance of species. The Conservation of Habitats and Species Regulations 2017 transposed the provisions of the Habitats Directive and the Birds Directive. These Regulations provide for the designation and protection of European Designated Sites, the protection of certain European species and the adaptation of planning and other controls for the protection of European Designated Sites.

The designation of SPAs and SACs, pursuant to the Habitats Directive, may negatively impact upon a Regulated Company's plans for future sites or operations. This risk is significantly increased by the effects of climate change, such as the increasing risk of drought. Schemes to address this driver have received funding approval from Ofwat within the Periodic Review process for delivery during the AMP5 Period, with one exception which SWS will address via the Change Protocol process.

EU Floods Directive

In September 2007, Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks ("**EU Floods Directive**") was adopted by the European Council. The aim of the EU Floods Directive is to reduce and manage the risks that floods pose to human health, the environment, cultural heritage and economic activity. The EU Floods Directive required Member States to first carry out a preliminary flood risk assessment by 2011 to identify areas at risk of flooding. For such areas, they had to draw up flood risk maps by 2013 and establish flood risk management plans focused on prevention, protection and preparedness by 2015. In March 2016, the EA published flood risk management plans for the 11 river basin districts wholly or mainly in England. The EU Floods Directive applies to inland waters as well as all coastal waters across the whole territory of the EU. The EU Floods Directive shall be carried out in coordination with the Water Framework Directive, notably by flood risk management plans and river basin management plans being coordinated, and through coordination of the public participation procedures in the preparation of these plans. All assessments, maps and plans prepared must be made available to the public.

The EU Floods Directive was enacted into UK law through the Flood Risk Regulations 2009 and the FWM Act. The key areas within the FWM Act are the requirement for the EA to create a National Flood and Coastal Erosion Risk Management Strategy, which a number of organisations will have to follow; the requirement for leading local flood authorities to create local flood risk management strategies; the facilitation of the EA and local authorities to carry out flood risk management works; the introduction of a more risk-based approach to reservoir management; changes to the arrangements that would apply should a water company go into administration; an increased ability for water companies to control non-essential uses of water, such as the use of hosepipes; an ability for water companies to offer concessions to community groups for surface water drainage charges; the requirement to use sustainable drainage systems in certain new developments, and the introduction of a mandatory building standard for sewers. The last National Flood and Coastal Erosion Risk Management Strategy was published in May 2011. The EA is now consulting on the strategy and aims to publish the final strategy in 2020.

Priority Substances Directive

The Priority Substances Directive 2008/105/EC ("**Environmental Quality Standards Directive**"), as amended by the Priority Substances (Amendment) Directive 2013 2013/39/EU and which is a daughter directive of the Water Framework Directive, sets harmonised environmental quality standards for 'priority' substances in surface waters (rivers, lakes, transitional and coastal) (such substances being those most harmful to the aquatic environment). Further to an initial phase carried out between 2010 and 2014 that sought to prioritise substances of potential concern and to determine the concentrations of such substances in wastewater, Phase 2 of a comprehensive investigation involving sampling covering 74 substances at over 600 sewage treatment plants is underway and due to conclude in 2020. This investigation (the "**Chemical Investigation Programme**") is intended to provide the technical basis to inform UK policy decisions regarding implementation of the Environmental Quality Standards Directive. The requirements of the Environmental Quality Standards Directive are not absolute but subject to a test of disproportionate cost.

The extent of potential investment is further complicated by the proposed revision of the Environmental Quality Standards Directive (COM/2011/0876/final – 2011/0429 (COD)). If the revisions as currently proposed are adopted, it will potentially represent a step change in investment needs, as some of the parameters it seeks to regulate are pharmaceutical residues. There is no clear means by which to regulate these substances before disposal to sewers and hence if they require removal, the only option is to do so by treatment at the sewage treatment works. However, conventional treatment processes are insufficient to ensure adequate removal and additional processes – in essence, those used to produce potable water – will need to be deployed.

Environmental Liability Directive

In April 2004, a European Directive (2004/35/EC) on "environmental liability with regard to the prevention and remedying of environmental damage" (the "**Environmental Liability Directive**") came into effect. It aims to both prevent and remedy environmental damage, including water pollution, damage to biodiversity and land contamination, which causes serious harm to human health. Under the Environmental Liability Directive, operators responsible for certain prescribed activities (for example, abstraction and discharge activity that requires authorisation) and which cause environmental damage would, subject to certain defences, be held strictly liable for restoring the damage caused or made to pay for the restoration. The UK implemented the Environmental Liability Directive through the enactment of the Environmental Damage (Prevention and Remediation) Regulations 2009 which came into force on 1 March 2009. These regulations were consolidated, revoked and replaced by the Environmental Damage (Prevention and Remediation) England Regulations 2015 and subsequently amended by the Environmental Damage (Prevention and Remediation) England (Amendment) Regulations 2017, which came into force on 1 April 2018. Although the Regulations only apply to post-1 March 2009 environmental damage, the Directive may well have a significant impact on Regulated Companies whose operations cause damage to the environment and biodiversity that goes beyond damage already covered by existing statutory regimes.

United Kingdom Law Generally

The water industry is subject to numerous regulatory requirements concerning human health and safety and the protection of the environment. Non-compliance with many of these requirements may potentially constitute a criminal offence. However, the Regulatory Enforcement and Sanctions Act 2008 ("**RESA**") allows the Secretary of State to confer powers on the regulators to impose civil penalties (such as fixed monetary penalties) on businesses as an alternative to criminal prosecution in relation to a number of environmental offences. Through the Environmental Civil Sanctions (England) Order 2010 the Secretary of State conferred these powers on the EA and Natural England. If a civil sanction is imposed, any potential criminal liability falls away. The criminal burden of proof of "beyond reasonable doubt" is used rather than the civil burden of "balance of probabilities". The introduction of these powers means that minor environmental offences cases will be dealt with outside the criminal system by the regulators with appeals being handled by a tribunal, and only the most serious cases going to the criminal courts. This will give the EA more flexibility and is expected to result in more enforcement activity for relatively minor offences. While the risk that adverse publicity related to court hearings may therefore be lessened, the EA will be required to publish details of any sanctions imposed.

The Sentencing Council issued the definitive guidelines on environmental offences on 26 February 2014 and they came into force on 1 July 2014. This guideline provides detailed guidance for the sentencing of offenders, whether in the Magistrates or Crown Court. It provides a range of potential fines and factors for consideration in sentencing decisions including the harm or risk of harm caused, the level of culpability, the extent to which the offender fell below the required standard, the offender's intentions, the location of an offence, whether there are repeated incidents, whether the offence was committed for financial gain, whether effective compliance or an ethics programme is in place, and evidence of any previous convictions, a history of non-compliance, wider impact, remorse, steps taken to remedy the problem, any voluntary payments of compensation, self-reporting, cooperation and acceptance of responsibility. Many of the offences under UK law provide for the imposition of unlimited fines, however the consideration of such factors as those above, is designed to ensure that the fine imposed reflects the seriousness of the offence and is proportionate to the offender's means.

Since the guidelines were introduced there has been an increase in record fines for large utility companies (including water companies) in the UK. This has driven an increased level of focus on compliance with environmental laws and permit conditions. This in turn has led to higher levels of engagement with environmental compliance issues at a senior management and boardroom level.

In its February 2018 report entitled "The State of the Environment: Water Quality", the EA expressed the view that there "are still far too many serious pollution incidents" in the UK. As part of its ambition to create a cleaner, healthier and better managed water environment, the EA expects that water companies will continue to reduce pollution incidents from sewer systems and sewage treatment works.

Under section 4 of the Proceeds of Crime Act 2002, in the context of an EA prosecution where a defendant has benefitted from criminal conduct, at the prosecutor's request the Court can make a confiscation order requiring the defendant to pay an amount equal to their benefit if the court considers such an order appropriate. Under section 41, the Court can also issue a restraint order if there is reasonable cause to believe that the defendant has benefited from their criminal conduct.

Abstraction Licensing

Under the WRA, water abstractions must be carried out in accordance with a licence granted by the EA. It is a criminal offence to abstract water without a licence or in breach of the conditions of an abstraction licence. The maximum penalty is an unlimited fine. The Water Act amends the abstraction licensing system in England and Wales to ensure the sustainable use of water. The EA may revoke abstraction licences in the interests of environmental protection where a licence has not been used for four years and the Secretary of State has the power to revoke or vary licences where they believe such action is necessary to protect any waters or underground strate, and any flora and fauna dependent thereon, from serious damage. No compensation would be available for any loss suffered as a consequence of any such amendments or revocations. DEFRA consulted on this right to vary or revoke in February 2012 and confirmed that the EA will assess each licence against a set of principles before recommending to the Secretary of State whether the modification or revocation is needed to protect the environment from serious damage. Also included in the Water Act is a provision requiring all new abstraction licences to be time-limited (and the Government has previously indicated that it expects most existing licences to be converted to a time-limited basis over time) and a provision creating a new right for third parties to claim damages against an abstractor for loss or damage due to water abstraction. Any new licence with a duration of more than 12 years must contain a "curtailment condition" which allows the EA to give the licence holder six years' notice of the abstraction licence changing to a lower authorised quantity without compensation being paid.

The right for third parties to claim damages against an abstractor for loss or damage due to water abstraction was considered for the first time in the 2016 High Court case *Chetwynd and another v Tunmore and another* [2016] EWHC 156 (QB). The judgment issued on 4 February 2016 confirmed that there was no need for the loss suffered by the claimant to be a foreseeable consequence of the abstraction, but that the claimant did have to prove, on the balance of probabilities, that but for the water abstraction, the loss and damage would not have occurred.

The Water Act 2014 includes measures to strengthen the water sector's ability to respond to the challenges of a growing population and less certain water supplies. The Government wants to put in place a more flexible abstraction regime which will enable abstractors to respond to variations in water availability as the climate changes. This is a significant programme of reform, which may involve modifying over 30,000 abstraction licences, and which creates risks and uncertainty for abstractors.

Water Abstraction Reform

The UK Government has recently expressed concerns about the current approach to managing water abstraction, particularly the lack of flexibility in the regulation and the antiquated nature of the permitting regime.

These concerns led to a Government consultation and Defra response in January 2016, the main recommendation of which was to bring water abstraction under the Environmental Permitting Regulations. Defra's recommendations are not expected to be implemented until 2020 at the earliest. The Government's new

25 Year Plan also places an emphasis on addressing “unsustainable abstraction” and on 29 May 2018, Defra published its water abstraction plan, setting out the approach to managing water abstraction going forwards. Defra’s plan centres around three key pillars:

(a) making full use of existing regulatory powers to address unsustainable abstraction. Specifically, the EA will use its powers to amend abstraction licences, commencing with changes to those licences which have the greatest impact, with a view to ensuring that 90 per cent. of surface water bodies and 75 per cent. of groundwater bodies achieve Defra’s water abstraction sustainability standards by 2021;

(b) developing a stronger catchment focus to ensure sufficient protection from unsustainable abstraction in key catchment areas; and

(c) modernising the abstraction system.

In April 2019, Defra confirmed its desire to modernise the abstraction management service, expand the range of digital services available and simplify regulatory requirements. Its current approach involves modernising the water resources licensing service by upgrading the systems, moving paper-based licenses into a digital format and modernising regulations by moving water resources licensing into the environmental permitting regulations and regulating all significant abstractors. The move of abstraction and impoundment licensing into the environmental permitting regulations is expected to occur in 2021, with consultation in 2020.

In its progress report published in May 2019, Defra set out that it was in the process of amending abstraction licences and due to complete their Restoring Sustainable Abstraction programme by 2020. It also set out that, while the current approach to reform was to encourage change on a voluntary basis, the EA would be ready to take regulatory action if required, under its wide-ranging discretionary powers. This could potentially lead to SWS incurring increased future costs to ensure legal and regulatory compliance.

New abstraction licences have reduced the amount of water SWS can take from the River Test and River Itchen in Hampshire. The licence reductions aim to secure the health of these rivers; however, the changes mean a shortfall of some 135 million litres of water a day during a drought – about 80 per cent. of the amount needed to supply SWS’s customers in south Hampshire, which is likely to mean putting in place water restrictions for some of its customers until 2027.

SWS has until then to meet the new conditions and plans to invest more than £800 million to make up the deficit, while ensuring water resources continue to be resilient and environmentally sustainable. Its wide-ranging plans, some of which will need Ofwat and EA approval, include desalination, new pipelines from neighbouring water companies, reducing leakage and improving water efficiency.

Water Quality

The DWI can take enforcement action in the event that a Regulated Company is in contravention of regulatory requirements concerning the “wholesomeness” of water supplies. Court proceedings can be brought by the DWI in the name of the Chief Inspector of Drinking Water for the offence of supplying water “unfit for human consumption”, for example if discoloured or foul-tasting water is supplied to customers. The Public Bodies Act 2011 allows charges to be imposed on water undertakers and licensed water suppliers for functions performed by inspectors appointed under the WIA, namely the DWI.

Environmental Permitting Regulations 2016 (the “EP Regulations 2016”)

The environmental permitting regime was originally introduced in April 2008 by the Environmental Permitting (England and Wales) Regulations 2007. The regime was subsequently extended in 2010 by the Environmental Permitting (England and Wales) Regulations 2010, before the EP Regulations 2016 came into force.

The aim of the Environmental Permitting Regime is to protect the environment from the potentially harmful effects of industrial processes: operators of certain industrial sites are required to be authorised by the EA (or local authority) under an installation environmental permit and are required to use the best available techniques to reduce environmental damage both during the life of an industrial site and following its closure. Depending on the type and volume of waste processed, certain water company activities can be subject to the Environmental Permitting Regime. As the application of the Environmental Permitting Regime applies to some of SWS's current operations, SWS requires bespoke environmental permits for certain sites where combustion of sludge gas (biogas) occurs, SWS holds permits for the following sites:

(a) Budds Farm – Combined heat and power ("**CHP**") Combustion Waste Activity with thermal input of more than 3 megawatts;

(b) Millbrook – CHP Combustion Waste Activity with thermal input of more than 3 megawatts;

(c) Ashford – sludge dryer and CHP Combustion Waste Activity with thermal input of more than 3 megawatts;

(d) Hastings – sludge dryer Combustion Waste Activity with thermal input of more than 3 megawatts; and

(e) Ford – sludge dryer Combustion Waste Activity with thermal input of more than 3 megawatts.

(f) Peacehaven – CHP Combustion Waste Activity with thermal input of more than 3 megawatts

(g) Goddards Green – CHP and Diesel Generator, Medium Combustion Specified Generator Activity with an agglomerated thermal input of more than 1 megawatt.

(h) Gravesend – CHP and Diesel Generator, Medium Combustion Specified Generator Activity with an agglomerated thermal input of more than 1 megawatt.

(i) Fullerton – CHP, Medium Combustion Specified Generator Activity with an agglomerated thermal input of more than 1 megawatt.

Sewerage Sludge

The recycling of sewerage sludge by using it on agricultural land as a fertiliser and soil conditioner is recognised by the European Parliament and the European Commission as the Best Practicable Environmental Option for such material. Such recycling must be in accordance with the Sludge (Use in Agriculture) Regulations 1989 (as amended and supported by a Code of Practice for Agricultural Use of Sewage Sludge (DoE 1996)) (the "**Sludge Regulations**"). It should be noted that sludge use in agriculture is subject to both market forces and legislation. Significant changes to markets or legislation could cause Regulated Companies to incur material expenditure. Changes in legislation would potentially represent "Relevant Changes of Circumstance" by Ofwat in relation to licences of Regulated Companies.

Climate Change

Energy use in water and wastewater treatment processes results in emissions of greenhouse gases and constitutes a significant environmental impact resulting from a Regulated Company's activities. Regulated Companies are significant energy users and subject to the climate change levy. The Climate Change Agreement scheme, regulated under the Climate Change Agreements (Administration) Regulations 2012, is due to run until 31 March 2023 and any Regulated Company party to a Climate Change Agreement receives a discount on their climate change levy. The EA is the administrator for the scheme and its timing aligns with both the CRC (now abolished) and the EU ETS. The Regulations also set out what a scheme participant will have to pay if they have failed their target (through a buy-out mechanism) and include details of the proposed new penalty regime which the EA can impose for non-compliance under the scheme.

Separately, the Climate Change Act 2008, which includes a framework for the adoption of environmental trading schemes, provides for a duty on companies to report on greenhouse gas ("**GHG**") emissions. This has been implemented in the UK by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and puts an obligation on quoted companies to report on their GHG emissions. The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which took effect in respect of financial years beginning on or after 1 April 2019, also require quoted companies, large unquoted companies and large limited liability partnerships to report on their emissions, energy consumption and actions taken to improve energy efficiency.

In 2011 and 2015, under the Climate Change Act 2008, SWS submitted a Climate Change Adaptation Report to Defra to report on the current and predicted impact of climate change on its functions and its proposals and policies for adapting to climate change. SWS will submit a Climate Change Adaptation Report to Defra during the next reporting round which will be completed by 2021. SWS must also comply with any guidance or directions made by the Secretary of State under the Act.

The UK Government has announced that it is committed to become a net zero carbon emission country by 2050 and the English water sector has voluntarily committed to achieve net zero carbon emissions by 2030.

Contaminated Land

Part 2A of the EPA, together with certain implementing regulations and statutory guidance, establishes a legal regime to address the remediation of contaminated land (including controlled waters). Current and future impacts may be dealt with under other pollution control laws instead (for example, if the contamination arises out of an activity regulated under the Environmental Permitting Regime). Under Part 2A, the original polluter or any person who is a "knowing permitter" can be required to clean up contamination of land if it is causing, or there is a significant possibility of it causing, significant harm to the environment or to human health or if it is causing, or there is a significant possibility of it causing, significant pollution of controlled waters. The higher threshold of "significant" pollution of controlled waters was introduced in 2012 and has been effective since 6 April 2012. If the polluter or a knowing permitter cannot be found, the owner or occupier of the land may be held liable, whether or not it caused the contamination. Civil liability may also arise (under such heads of claim as nuisance or negligence) where contamination migrates into or on to third-party land and/or impacts upon human health, flora or fauna and liability for contamination may also rest with a Regulated Company where the contamination emanating from its land arose as a result of the activities of one of its statutory predecessors. In practice, remediation of contaminated land is most likely to be triggered on the cessation of regulated activities or the redevelopment of land. Statutory guidance on Part 2 of the EPA was issued by DEFRA in April 2012. The guidance is split between non-radioactive and radioactive contamination but (apart from bringing in a higher threshold for water pollution) no major changes were made to the regime.

Asbestos

The Control of Asbestos Regulations 2012 impose a duty on those who own or control commercial premises to carry out detailed assessments for the presence of asbestos, record its condition and proactively manage the associated risks.

Trade Effluent Discharge

Regulated Companies are responsible under the WIA for regulating discharges of trade effluent into their sewers. Industrial and trade sources of wastewater to sewers arise from a wide range of industries, such as food manufacturers, car washes and laundries. Regulated Companies regulate these discharges to protect their operations and the environment.

Under section 118 of the WIA, an owner or occupier of premises who wishes to discharge trade effluent into public sewers must apply to the relevant Regulated Company for consent to do so. In considering whether or not to grant such a consent, the Regulated Company will usually have regard to the effect that receiving the effluent will have on the performance of its wastewater treatment works and associated discharges. Such a consent may be subject to conditions imposed by the Regulated Company. These conditions can stipulate treatment to be undertaken to minimise the polluting effects of the discharge, as well as charges to be paid in respect of the trade effluent discharge. Under the Trade Effluents (Prescribed Processes and Substances) Regulations 1989 (as amended), when trade effluent contains prescribed substances, or more than a prescribed quantity of such substances, or derives from a stipulated process (that is "**special category effluent**"), the Regulated Company must refer to the EA any application to make such a discharge. The EA must then determine whether, and if so upon what conditions, the Regulated Company may accept the discharge. The Regulated Company cannot consent to the discharges to which the reference relates until the EA serves notice on the Regulated Company of its determination on the reference. Any person aggrieved by the refusal of a Regulated Company to give consent or by conditions imposed in a consent can appeal to Ofwat.

The Regulated Company may review the terms of any consent from time to time and vary those terms by notice. However, this power is subject to restrictions. In addition, in certain circumstances, the EA has the power to review discharges of special category effluent and may require the termination or variation of the relevant discharge. Again, this power is subject to restrictions, unless the review is required to enable compliance with EU obligations or international agreements, or for the protection of the environment.

A Regulated Company may enter into an agreement with the owner or occupier of trade premises for the reception and disposal of trade effluent, instead of granting a consent. If the trade effluent which is to be the subject of an agreement is special category effluent, the Regulated Company must refer to the EA the question of whether the relevant operations should be prohibited or made subject to conditions. The Regulated Company cannot enter into any agreement regarding special category effluent until the EA serves notice on the Regulated Company of its determination in this regard.

It is an offence to discharge trade effluent from trade premises without a consent from, or an agreement with, the relevant Regulated Company, or to fail to comply with the conditions in a consent, and in both cases the maximum penalty is an unlimited fine.

Discharge consents are also subject to the Review of Consents undertaken by the EA under the Habitats Directive as referred to above, which could lead to modification or revocation of the same. The implementation of the Water Framework Directive has also driven trade effluent consent reviews, tightening trade effluent consent limits.

Sewer Flooding

When a "combined" sewerage system, which carries both sewage and surface water run-off, reaches its capacity during heavy rainfall, a mixture of surface run-off and sewage overflows into rivers or out of external or internal drains. Section 94 of the WIA places a duty on every Regulated Company to ensure its area is properly drained via an adequate sewerage system. This duty is enforceable by the Secretary of State or Ofwat who, under section 18 of the WIA, may make an Enforcement Order securing compliance. Householders can bring proceedings against the Regulated Company in respect of its failure to comply with such an Enforcement Order. However, where such an order has not been made, the only remedy available to such householders is to request that the Secretary of State or Ofwat makes an order and, if one is not forthcoming, to pursue judicial review proceedings against either the Secretary of State or Ofwat on the grounds of their failure to act. Householders do not have the right directly to enforce section 94 against Regulated Companies. This was confirmed by the House of Lords' decision in *Marcic v Thames Water Utilities* [2003] UKHL 66.

Combined Sewer Overflows ("CSOs")

The development of urban drainage systems has evolved over time. Sewage systems are designed to cope with the combined flow of sewage and storm water up to a particular level, which is consented to by the EA (the "**Consented Discharge**"). Where, during heavy rains, the level of sewage and storm water exceeds the level that the sewerage systems are designed to cope with, the Consented Discharge is allowed to flow into the relevant watercourse in order to prevent flooding in the surrounding area. The drainage systems vary considerably in their age, design, and hydraulic performance and the EA regulate and monitor the impact of these discharges on the aquatic environment. Any discharges which are considered to be unsatisfactory may be required to be improved through the investment programme agreed as part of the Periodic Review process.

It is a requirement of the UWWTD that Member States limit the pollution of receiving waters by untreated sewage discharge. The Urban Waste Water Treatment Regulations 1994 impose requirements under schedule 2 to design, construct and maintain collecting systems to limit pollution of receiving waters due to storm water outflows. Under section 6, the National Rivers Authority is required to ensure pollution of receiving waters due to storm water outflows is limited with respect to discharge from a collecting system or urban waste water treatment plant. To meet this requirement, the EA uses performance criteria to assess the impact of CSOs and to determine whether they should be regarded as "satisfactory" or "unsatisfactory". CSOs will be regarded as unsatisfactory if, for example, they cause a breach of water quality standards or other EC directives, they cause or significantly contribute to a deterioration in river chemical or biological quality/class, or they cause a significant visual or aesthetic impact due to solids or sewage fungus and have a history of justified public complaint. See further "*Urban Waste Water Treatment Directive*" above.

Discharge into Controlled Waters

If Regulated Companies wish to discharge polluting matter into controlled waters, whether from continuous or intermittent (Storm/CSO) outfalls, they must seek an environmental permit from the EA. Applications are made under EP Regulations 2016, (although consents under the WIA may be required for works carried out at reservoirs, wells or boreholes where discharges are made through pipes of a certain size). The EA has the power to grant or refuse permits, to impose conditions, or to modify, vary or revoke such permits. Permit conditions may control the quantity of a discharge or the concentrations of particular substances in it or impose broader controls on the nature of a discharge. They are based on objectives set by the EA for the quality of the relevant receiving water as well as any relevant water quality standards in EU Directives.

Non-Compliance

The EP Regulations 2016 provide for a number of water pollution offences which include causing or knowingly permitting any poisonous, noxious or polluting matter or any trade or sewage effluent to enter controlled waters unless the relevant discharge is made under and in accordance with a regulatory consent (including an environmental permit) and failing to comply with the conditions in an environmental permit. The maximum penalty for these offences is an unlimited fine or five years' imprisonment, or both.

Under the EP Regulations 2016, a Regulated Company will be regarded as responsible for a discharge of sewage effluent if it was bound to receive into its sewers the matter included in that discharge. However, a Regulated Company will not be guilty of an offence under the EP Regulations 2016 if the offending discharge is attributable to a discharge into a sewer by a third party which the Regulated Company was not bound to receive and could not reasonably have been expected to prevent.

Groundwater

Activities that could lead to the contamination of groundwater such as direct and indirect discharges of pollutants to groundwater, are regulated under the EP Regulations 2016. The definition of a pollutant includes substances harmful to human health or the quality of aquatic ecosystems. The EP Regulations 2016 require a permit for such discharges. Direct discharges, which are those ones which enter, without percolation, straight into groundwater, are controlled under the Environmental Permitting Regime. Any permits granted must be consistent with the requirements of the EP Regulations 2016. Indirect discharges, which are those which enter groundwater following percolation through ground or subsoil, may arise from the disposal or tipping for the purposes of disposal to land of pollutants, and applications for permits for them will also be made to the EA under the EP Regulations 2016. The EA also has the power under the EP Regulations 2016 to issue prohibition notices to stop activities which may cause a direct or indirect discharge of pollutants to groundwater, for example, oil from underground storage tanks. Before issuing such notices, the EA must take account of any code of practice issued for the purposes of the EP Regulations 2016.

Hazardous Substances

SWS stores hazardous substances on its operational sites in compliance with specific safety standards to conduct its operational activities. All chemical installations and pipework meet specific standards to ensure that the installations are safe and do not present a risk to SWS staff, contractors or visitors, or to the general environment, the standards include the standards set out in the Health and Safety at Work Act 1974 and the Control of Substances Hazardous to Health Regulations 2002 as amended.

Within SWS, there are specific formal design standards which must be adopted when installing new/replacement chemical storage facilities and associated equipment (e.g. tanks, pipework and valves). The standards will vary slightly depending on the type of chemical being stored, as there will be specific risks associated with different chemical types, which must be taken into account to ensure that correct materials are used in all installations.

Management of Water Resources

Water Resources Planning

The Water Act amends the WIA to provide that Regulated Companies are under a duty to further water conservation when they formulate or consider any proposal relating to their functions and has placed WRMPs on a statutory footing: Regulated Companies are now under a duty to produce WRMPs and publish and consult upon them. These plans will set out how the Regulated Company will manage and develop water resources so as to be able, and continue to be able, to meet its water supply duties under the WIA. It must address, among other things, the Regulated Company’s estimate of water it will need to meet its duties, and the measures it intends to take to manage and develop resources. The planning period is 25 years. Plans are subject to an annual review (the conclusion of which must be sent to the Secretary of State) and are to be revised every five years, or in any case where the annual review indicates a material change in circumstances, or the Secretary of State directs that a revised draft should be prepared. In the past, Regulated Companies have produced WRMPs on a voluntary basis every five years and produced an annual review for the EA each subsequent year.

SWS published its latest draft SWS WRMP in 2019 in respect of the years 2020 to 2070 with the intention of publishing the final SWS WRMP on 3 December 2019, having received permission from DEFRA to do so. The SWS WRMP sets out that the future is uncertain and variable, given the challenges of abstraction licence changes, growth in demand, climate change and expected further reductions in the water available for use from existing sources as a result of licence changes to protect the environment. SWS have therefore sought to plan to meet a number of different futures, in order to be more resilient to change. The draft puts forward a broad range of interventions to manage future risk, including leakage reductions, significant demand management and new resource developments and water trading. A copy of the draft Plan is available on the company website[19].

[19] Please see https://www.southernwater.co.uk/our-story/water-resources-planning for further information.

Drought Planning

There are various water restriction options available to Regulated Companies in times of drought, which could be applied depending on the severity of the drought situation and the approval of either DEFRA or the EA. These include voluntary water restrictions, hosepipe bans, Ordinary Drought Orders, Drought Permits and Emergency Drought Orders.

Regulated Companies are under a statutory duty to consult on, prepare and maintain a drought plan. This plan should prescribe how the Regulated Company will continue during a period of drought to discharge its duties to supply adequate quantities of wholesome water with as little recourse as reasonably practicable to Drought Orders or Drought Permits. Such a plan should include measures the Regulated Company might need to take to restrain demand for water or obtain extra water from alternative sources.

SWS regularly updates its Drought Plan and in 2018 published an updated draft Drought Plan for public consultation. Following the end of the consultation and SWS's publication of a Statement of Response, SWS updated the draft Drought Plan and received final approval from DEFRA to publish the updated plan on 1 July 2019. The 2019 Drought Plan is available with supporting documents on the company website.

Sustainability Reductions

The management of water resources by Regulated Companies is subject to a number of challenges, including: dry weather conditions; climate change; increasing demands for water; rises in leakage rates; aquifer contamination from industrial and agricultural pollution; and reductions in abstraction required to ensure sustainable river systems. In relation to the latter, the EA has been instructed by DEFRA to use its powers to revoke damaging abstraction licences. In previous years, funding for environmental sustainability reductions has been provided through the Periodic Review with the solution chosen to achieve the abstraction reduction (such as use of an alternative water supply source) being funded prior to its implementation. Since 2012, the EA has had the power to lower the authorised quantity of existing abstraction licences without paying compensation, where it believed the revocation was necessary to protect any waters or underground strata, or any flora or fauna dependent thereon, from serious damage.

In December 2015, following the introduction of Ofwat's new primary duty of resilience under the Water Act 2014, the Resilience Task and Finish Group (an independent body reporting to Ofwat) published a report with a series of 10 key recommendations which fed into Ofwat's ongoing reform of policy framework for its 2019 price review.

Strategic Policy Statement

Ofwat is required to fulfil its functions in accordance with a Strategic Policy Statement. In 2017, Defra published an updated Statement to replace the 2013 version and this Statement sets out the Government's three strategic priorities that apply to Ofwat's regulation of the water sector in England. These priorities are: (i) securing long-term resilience; (ii) protecting customers; and (iii) promoting markets to drive innovation and unlock efficiencies.

Competition in the Water Industry

Each Regulated Company effectively holds a geographic monopoly within its appointed area for the provision of water and wastewater services although there is some limited competition. Ofwat has stated that it will use its powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. Ofwat has a duty to consider whether the exercise of its powers under the Competition Act is more appropriate before using its powers under the WIA to promote competition.

The current main methods for introducing competition are:

(i) since 1 April 2017, all non-household customers are able to choose their water and/or sewerage supplier;

(ii) new appointments and variations ("**NAV**") which allow one company to replace another as the statutory undertaker for water or wastewater services in a specified geographical area within the other Regulated Company's appointed territory. A NAV can be granted for sites which do not already receive public water and/or sewerage services, in respect of a site with water and/or sewerage services within an existing Regulated Company's area where at least 50 megalitres of water are supplied or likely to be supplied to particular premises wholly or mainly in England in any 12-month period, or where the incumbent undertaker consents to the variation. The NAV mechanism continues alongside the regime for licensing new entrants under the Water Act 2014. In September 2018, Ofwat published a revised version of its application guidance and application form for NAVs, containing minor amendments to the earlier version, and in July 2019 Ofwat published its conclusions on a consultation on its NAV policy statement, confirming its current statement and noting the action it has taken to reduce barriers to NAVs;

(iii) facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work ("**self-lay**"). The Water Act introduced a statutory framework for self-lay (see below);

(iv) water supply licence (retail) – the Water Act 2003 introduced a statutory framework to a water supply licensee to purchase wholesale water from the existing water undertaker and supply this water to a premises (i.e. premises that currently uses at least 5 megalitres per annum). As of April 2017, the water supply licencing regime has been replaced by the regime. Regulated Companies publish a wholesale charges scheme detailing charges to be levied on retailers, who then compete for customers' business based on price and other terms;

(v) water supply licence (combined) – the Water Act 2003 introduced a statutory framework to allow water supply licensees to introduce water into the undertaker's supply system in order to supply water to its customer's eligible premises using a Regulated Company's network (referred to as "**Common Carriage**"). All Regulated Companies maintain access codes which set out the conditions, including indicative access prices, under which licensees may introduce water into their networks. A water supply licensee may challenge the terms of access, in particular access prices to the Regulated Company's network under the Competition Act;

(vi) sewerage licence (retail) – when a sewerage licensee purchases sewerage services from the incumbent sewerage undertaker and conveys away sewage at the retail level from non-household premises. The sewerage licensing regime was introduced by the Water Act 2014. Regulated Companies publish a wholesale charges scheme detailing charges to be levied on retailers, who then compete for customers' business based on price and other terms;

(vii) cross-border supplies (raw/treated and sewage/sludge) where a customer in an area adjacent to a neighbouring Regulated Company's territory can connect to another Regulated Company's network and receive a supply;

(viii) private suppliers or private sewers including on-site water and effluent treatment;

(ix) Competition Act – Ofwat has concurrent powers with the CMA to apply UK/EU competition law on anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. In March 2017, Ofwat published guidance on its approach to applying the Competition Act and the corresponding provisions in Articles 101 and 102 of the Treaty on the Functioning of the European Union in the water and wastewater sector in England and Wales; and

(x) from 2020, emerging markets in water resources, bioresources, leakage detection and demand management.

The Water Act 2014 allowed the Secretary of State to repeal the 5 megalitre minimum threshold which applies to water supply licences for non-household supplies in England. The Government exercised its discretion to do so as part of new water and wastewater retail market arrangements enabled by the Water Act 2014. As a result, all eligible non-household customers, irrespective of their consumption level, are able to choose their preferred water supplier as of April 2017.

In May 2019, Ofwat announced that it considered that there were numerous, reoccurring examples of incumbent Regulated Companies failing to support the development of effective markets (particularly the markets for business retail and developer services) by either giving insufficient thought to the potential impact that their actions, inaction, or active opposition or delaying of initiatives that are aimed at improving such markets. Ofwat therefore published a letter sent to incumbent Regulated Companies outlining its plans to encourage the development of effective markets. The letter explains that Ofwat promotes the targeted use of markets where these can deliver additional benefits for customers and society (the letter provides various examples of action it is taking to reiterate its expectations of the role that incumbent water companies have in supporting the development of effective markets). As a result, Ofwat decided to monitor incumbent Regulated Companies over a period of a few months to, in relation to, for example, their engagement and support for initiative aim at driving improvements, and the development of new markets. Regulated Companies have been asked to respond to the letter by October 2019 setting out their progress in certain areas. Ofwat has said that if it does not see a significant improvement, it will increase the extent of pressure it exerts on incumbent Regulated Companies, including using enforcement power where appropriate.

In June 2019, Ofwat launched an investigation into Thames Water in relation to a potential abuse of a dominant position in relation to: (i) the company's approach to installing digital smart meter and its impact on data logging; (ii) the accuracy of customer data that was made available to retailers at the time of the opening of the business retail market; and (iii) the fairness of certain contractual credit terms applied to retailers.

The Water Act 2003

The Water Act 2003 contained provisions aimed at increasing the opportunities for competition in the supply of water services to non-household large users. Between 2005 and 2011, the eligibility threshold for large users was 50 megalitres per year. In 2011, this was reduced to 5 megalitres per year. As of April 2017, any non-household customer served by an English water or wastewater provider may switch suppliers.

The Water Act 2003 introduced a scheme to license new water suppliers either under a "retail licence" or a "combined licence". A "retail licence" enabled the holder to purchase water from the Regulated Company in order to supply its customers through a wholesale agreement with the Regulated Company. Retail services could range from simply contracting with the customer to provide a supply and bill for the supply, to a much wider range of services, such as water efficiency planning, metering and providing tailored customer services. As part of the transition to the WSSL regime, existing retail licences were revoked and replaced by new WSSLs in accordance with the Water Act 2014.

The "combined licence" was a retail licence with a supplementary authorisation to allow the holder to introduce water into the supply system (Common Carriage) in connection with a supply to customers' premises in accordance with its retail authorisation. The licence is referred to as a water supply licence with a wholesale authorisation under the new regime, which retains it as a concept. Such a licensee may have its own water source or it may purchase water from a neighbouring Regulated Company to import into the "local" Regulated Company's supply system. This must be done through an access agreement with the relevant Regulated Company. Before a wholesale authorisation is granted, the Secretary of State must be consulted so that the DWI can give its assessment as to the applicant's suitability to introduce water into the public supply network.

The Water Act 2014

The Water Act 2014 implemented legislative changes to strengthen the water sector's ability to respond to the challenges of a growing population. It also aimed to offer consumers more choice by enabling them to easily switch water and sewerage suppliers through the removal of existing regulatory barriers for new entrants to the market.

The Water Act 2014 modernised Ofwat's regulatory powers to allow it to continue to regulate the industry in the interests of consumers. It extended the scope of the Environmental Permitting regime (overseen by the EA) to include water abstraction and impounding licences, and to align the frequency of drought planning to a five-year cycle as with other water planning cycles.

The Water Act 2014 included market reform measures that were intended to increase competition in the water sector. In particular, it introduced a revised water supply licensing regime to open up retail and wholesale competition in relation to supply to all non-household customers in England. The Water Act 2014 further includes provisions for, among other things:

(i) facilitating bulk supply agreements and mains connection agreements, by revising the rules relating to bulk charges;

(ii) extending the scope of the EA's Environmental Permitting regime to include water abstraction and impounding licences and to align the frequency of drought planning to a five-year cycle so it aligns with other water planning cycles;

(iii) expanding the water supply licensing regime to introduce sewerage licences and wholesale (non-retail) supply licences, and to facilitate the creation of a cross-border retail market between England & Wales and Scotland;

(iv) varying some disincentives to water company mergers;

(v) adding a new duty to Ofwat's primary duties to further the resilience objective to secure the long-term resilience of water companies' water supply and wastewater systems; and to secure that they take steps to enable them, in the long term, to meet the need for water supplies and wastewater services;

(vi) enabling the Secretary of State to pass regulations setting out standards of performance for water companies and for the payment of compensation to customers where they fail to meet these standards;

(vii) allowing penalties to be imposed on water companies for licence breaches for five years (rather than 12 months) after the breach;

(viii) allowing Ofwat to amend water companies' licence conditions to reflect the reforms in the Water Act 2014 (subject to consultation with affected water companies and the Secretary of State); and

(ix) reforming the special water merger regime by introducing exceptions to the obligation on the CMA to refer water mergers to a second phase investigation and enabling the CMA to accept undertakings in lieu of a reference.

The Competition Act 1998

The Competition Act came into force in March 2000 and introduced two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I Prohibition prohibits agreements, decisions by associations of undertakings or concerted practices between undertakings which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK The Chapter II Prohibition prohibits the abuse of a dominant market position which may affect trade within the UK.

Ofwat has concurrent powers with the OFT to apply and enforce the Competition Act 1998 to deal with anti-competitive agreements or abuses of dominance relating to the water and wastewater sector, including the power to enforce directions to bring an infringement to an end and to impose penalties of up to 10 per cent. of worldwide group-wide turnover of a Regulated Company for the infringement. Also, any arrangement which infringes the Competition Act 1998 may be void and unenforceable and may give rise to claims for damages from third parties. A party to an anti-competitive agreement may also be able to seek relief from the other party if it was in a markedly weaker bargaining position than the other party when the contract was made or where the party seeking relief cannot bear significant responsibility for infringement of the Chapter I Prohibition.

Future Direction of Competition

Ofwat completed its initial assessment of the costs and benefits of extending retail competition to residential water customers in England in 2016. In its final report to government, "Costs and benefits of introducing competition to residential customers in England", published in September 2016, Ofwat states that the introduction of competition in the residential retail market in England would be likely to result in a net benefit. It also states, however, that it is for the government to decide how to proceed.

An element of upstream competition is to be introduced via information provisions pursuant to recent modifications to Regulated Companies' licences. These are intended to support the development and operation of markets in water resources, demand management, leakage services and bioresources through the promotion of effective competition and by monitoring the progress and development of those markets. Licence modifications are expected shortly to ensure that Regulated Companies do not show undue preference or discrimination in these new markets.

In addition to information provisions in the licences of Regulated Companies, Ofwat has taken a number of steps within the PR19 Final Determination to support the development of markets, in particular:

(i) introducing separate binding price controls for Bioresources (including sludge/bioresource treatment, transportation and recycling/disposal) and water resources;

(ii) to allocate parts of the RCV to bioresources and water resources, while providing the same nature and degree of regulatory protection as at present for the RCV allocated to water resources and bioresources at 31 March 2020;

(iii) to inform, enable and encourage greater use of markets in the financing and provision of new assets by third parties by means of "direct procurement" for customers.

Merger Regime

The WIA imposes a duty on the CMA to refer completed and anticipated water mergers for a full Phase II investigation. In determining whether such a merger operates, or may be expected to operate, against the public interest, the CMA must assess whether the merger prejudices Ofwat's ability to make comparisons between different water companies. If the CMA decides there is a prejudicial outcome (i.e. that the merger has prejudiced, or may be expected to prejudice, the ability of Ofwat to make comparisons), it must decide whether action should be taken to remedy, mitigate or prevent that prejudice and, if so, what action. Remedies may be structural (total or partial prohibition of a proposed merger; total or partial divestiture of a completed acquisition; divestiture of another water company held by the acquiring company) or behavioural, such as amendments to a Regulated Company's licence (for instance regarding the provision of information) or a requirement to maintain separate management. In deciding on remedies, the CMA may have regard to any relevant customer benefits (in the form of lower prices, higher quality, greater choice or innovation) of the merger under consideration. The CMA takes the final decision on remedial action, and this decision can be appealed to the Competition Appeal Tribunal by any person sufficiently affected by the decision. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU merger regime, although the CMA may (protecting a national "legitimate interest") still investigate the effect on the comparator principle.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company or where the special water merger regime does not otherwise apply, general merger control rules apply. These may call for discussion with the CMA as well as Ofwat. The CMA has the power to investigate any merger within the jurisdiction of the United Kingdom. The CMA must refer the transaction to the CMA for a Phase II investigation if the arrangement could be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services. In its investigations, the CMA will consult with Ofwat.

The Secretary of State, in certain limited circumstances, may also refer a merger to the CMA for a Phase II investigation into whether the arrangement could be expected to operate against the public interest. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU's merger regime.

The Water Act 2014 introduced, with effect from 18 December 2015, amendments to the current water special merger regime. In addition to the £10 million threshold discussed above, the CMA has an enhanced discretion not to refer water mergers to a Phase II investigation and, in the event that it determines a water merger should be referred for a Phase II investigation, may accept undertakings in lieu of a reference. Before making a first phase decision, the CMA must consult with Ofwat. Furthermore, the Water Act 2014 also imposes a new duty on the CMA to keep under review and advise the Secretary of State on both the £10 million threshold and the conditions under which the CMA must refer water mergers. As of July 2019, one merger (Severn Trent Plc / Dee Valley Group plc) has taken place under this new regime with the remaining mergers of water companies having been reviewed by the CMA under the general merger regime.

Market Investigation Regime

The Enterprise Act contains the power for the CMA to investigate markets where it (or, in some circumstances, a minister or Ofwat) has reasonable grounds for believing that competition in that market is not effective. The reference by the CMA, the relevant minister or Ofwat will describe the goods or services and will indicate the feature(s) that relate to such goods or services that it believes have adverse effects on competition. The CMA will be responsible for remedies (which may include structural separation). However, where there are public interest considerations, the Secretary of State may intervene and remedy any adverse effects in the name of the public interest. As of July 2019, no market investigation has been initiated into the water sector.

Regulatory Developments

Water 2020 Paper

Following on from its December 2015 consultation, Ofwat issued its final Water 2020 Paper in May 2016, which included specific areas for further consultation about the role of markets and the regulatory framework for the 2019 price review. Ofwat concluded its methodology in December 2017 (see below). The following new proposals will apply from April 2020:

(i) **Indexation**: Ofwat amended all water company licences so that wholesale revenues will be indexed by CPIH from 1 April 2020. 50 per cent. of the RCV as at 1 April 2020 will be indexed going forward by RPI. The remainder of the RCV as at 1 April 2020 and all additional RCV accrued on and after 1 April 2020 will be indexed by CPIH.

(ii) **Bioresources**: Ofwat amended all water company licences to create a binding separate price control for bioresources as from PR19 (sludge, a by-product of wastewater treatment which is increasingly being seen as a resource), separate from the wastewater transport and treatment price control ("**Network Plus**") and to ensure information is provided and shared to enable and incentivise the development of

bioresource markets. Ofwat has stated that pre-2020 RCV will be protected through the design of the regulatory framework for bioresource treatment and disposal in the PR19 process and no explicit mechanism is needed. However, Ofwat has stated that it will consider adopting a mechanism for PR24 if this is needed. The new bioresource price control reflects the relevant proportion of the RCV. RCV was allocated to the new bioresource price control on a focused basis, that is reflecting the full replacement cost of the assets in bioresources.

(iii) **Water resources**: Ofwat amended all water company licences to create a binding price control for water resources, separate from network plus. The water resource price control will differentiate between revenue for pre- and post-2020 water resource capacity. The latter will be exposed to utilisation risk, the former will not. The total revenue control will constitute two elements: (a) a fixed element (e.g. £X million per annum); and (b) a mechanistic in period adjustment factor that allows for bilateral market entry. As with bioresources, RCV was allocated to this new price control. However, this was done on an unfocused basis, meaning that an appropriate proportion of the RCV is allocated based on its share of the total replacement costs. In addition to these changes, an additional licence change will be made to ensure that basic information for supply-demand deficits and water resource costs in a consistent format is available and to require water companies to allow reasonable commercial and non-commercial use of this public data.

(iv) **Direct procurement**: Ofwat will also encourage incumbent water undertakers to use direct procurement for suitable discrete enhancement schemes with a whole-life totex guideline value of more than £100 million. Ofwat has also said that discrete enhancement schemes under this guideline value may also be eligible for direct procurement.

Following the notice of the proposal issued under the WIA and published in November 2016, Ofwat announced in April 2017 that it had modified the licences of the 17 largest water companies to enable some of the Water 2020 policy decisions to be implemented for PR19, including: (i) changes to Condition B (Charges) to allow separate controls to be set at a price review for water resources, and bioresources and water and wastewater Network Plus; (ii) changes to ensure that either CPIH is used from 2020 (instead of RPI) in Condition B and Condition K; (iii) changes to Condition B to allow future in-period adjustments to price control revenue for ODI rewards and penalties for the 17 water companies; and (iv) changes to enable market information databases in relation to water resources and bioresources.

PR19: Changes to Price Limits

Ofwat confirmed its approach to PR19, in a set of documents dated 13 December 2017 which confirmed Ofwat's approach to remunerating returns in the wholesale and retail price controls, including setting the cost of capital by reference to a notional capital structure.

The published methodology follows the direction of travel flagged in Water 2020 Plan save for the proposal to amend retail price controls from five years to three.

As part of its price review process Ofwat is focused on four key themes: great customer service, resilience, affordability and innovation. It set stretching performance targets (generally at the upper quartile) including for 15 common performance commitments, that all companies were required to include in their plans. Specific changes made at PR19 include:

- further disaggregation of price controls (bioresources and water resources) to facilitate markets;
- the application of 15 common performance commitments in areas of most importance to customers, with common targets for a number of these performance commitments;

- asymmetric cost sharing incentives for network plus and water resources controls to encourage submission of efficient plans;
- use of forecast data for benchmarking wholesale efficiency; and a contractual approach to DPC;
- enhancements to the measure of customer service, by replacing SIM with a new measure of customer service protection, C-MeX. C-MeX is the new customer experience measure which will include higher potential financial rewards than SIM,
- introduction of a satisfaction measure for developer services, D-Mex; and
- indexation of revenues by CPIH rather than RPI and a transition to indexing the regulatory capital value by CPIH. For AMP7 50% of the opening RCV will be indexed by RPI and the other 50%, along with all new additions to the RCV, will be indexed by CPIH.

Ofwat supplemented its methodology for PR19 with amendments and clarifications. In particular, Ofwat published "*Putting the sector back in balance: summary of Ofwat's decision on issues for PR19 business plans*" on 3 July 2018 setting out amendments and clarifications to the PR19 methodology relating, notably, to a proposal for Regulated Companies to share financial outperformance for gearing materially exceeding Ofwat's notional assumptions. Following the changes introduced by Ofwat, Regulated Companies are now, in particular, required to: (a) set out proposals to share benefits with customers where Regulated Companies have gearing that is materially above the notional level that underpins price controls; (b) explain in business plans how dividend policies in 2020-25 take account of how companies deliver for customers over the price control period; and (c) set out transparently in business plans for customers and wider society, how performance related executive pay will reward stretching delivery for customers. On 31 July 2018, Ofwat published "*Putting the sector in balance: position statement on PR19 business plans*" which confirmed Ofwat's changes to its 2019 price review methodology announced on 3 July 2018 and set out its final position on the consultation, a summary of issues raised by respondents, the detailed rationale for its decisions and an assessment of the likely impact.

A Better Deal

On 30 November 2015, the Government announced in "*A Better Deal: boosting competition to bring down bills for families and firms*" that it intends to introduce household retail competition to the water sector in England. It asked Ofwat to provide an assessment, by summer 2016, of the costs and benefits of extending retail competition to household customers. Ofwat submitted its final assessment in September 2016 which concluded that evidence suggests that a net positive outcome of introduction of competition to the residential retail water market is more likely than not, with Ofwat noting that there are potential benefits worth around £2.9 billion over 30 years if competition is extended to household customers. The Government decision on the extension to household customers is pending.

The Retail Exit Code Consultation

In March 2018, Ofwat released a consultation titled "*Retail Exit Code: Price protections beyond March 2020*" (the "**REC Consultation**"). The Retail Exit Code, which became effective in April 2017, sets out requirements for price and non-price terms in the default tariffs offered to non-household water and sewerage customers in England that have not yet engaged with the recently opened retail market. The price requirements are linked to PR16 which is due to expire at the end of March 2020. Ofwat identified four options going forwards: (i) removal of price protections; (ii) specifying only that prices must be reasonable and non-discriminatory; (iii) maintaining a control based on PR16, possibly with some adjustments; or (iv) setting up a price control based on a new underlying model. In December 2018, Ofwat published a further consultation on price protections beyond March 2020, together with a consultation on the requirements in relation to non-price terms in the Retail Exit Code. Ofwat issued its decision on price protections in July 2019, with its main themes being: (i) the prioritisation of protections for customers; (ii) the support of the market where it is best able to flourish; (iii) working with industry to resolve market frictions; and (iv) another planned review of protections in the medium term (i.e. in two to three years). Simultaneously, Ofwat issues its decision on non-price protections, which introduced a "no worse off" principle into the Retail Exit Code to avoid non-voluntary changes being made to customers' non-price terms.

Changes to the Regulatory Accounting Guidelines

On 31 March 2016, Ofwat published a review of the accounting treatment of water and wastewater and water-only companies' business units for bioresources and water resources which was prepared by Cambridge Economic Policy Associates ("**CEPA**"). A separate review was carried out in relation to the seven water-only companies to ensure that all potential issues were covered, particularly those which are specific to water only companies. Following CEPA's reports and a short Ofwat consultation in August 2016, Ofwat published an information notice on 9 October 2016 summarising the changes it has made to the Regulatory Accounting Guidelines (the "**RAGs**") that water and wastewater companies in England and Wales must follow in preparing their annual performance reports. In November 2017 Ofwat published an information notice summarising the changes made to the RAGs that water and wastewater and water-only companies in England and Wales must follow in preparing their annual performance reports. In March 2019, Ofwat published an information notice summarising further changes made to the RAGs for the 2018-2019 period, including, *inter alia*, the requirement to incorporate new "financial flows" tables and revised financial metrics. In addition, in March 2019, Ofwat published an information notice setting out its expectations for monopoly companies (the largest Regulated Companies in England and Wales) with regard to the information covered in annual performance reports for 2018-2019, on top of the information required under the RAGs.

Bulk Supply and Discharge Pricing

In its November 2017 paper "*New connections charges rules from April 2020 – England: Decision Document*", Ofwat set out a new approach to:

- requisition charges (where Regulated Companies lay new infrastructure at developers' request);
- asset payments (where Regulated Companies pay for water mains laid by a developer);
- charges for new infrastructure laid by Regulated Companies to enable new inset appointees to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company;
- payments for new infrastructure laid by new inset appointees to enable them to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company; and
- infrastructure charges (which are a one-off charge levied by Regulated Companies each time premises are connected to the water or sewerage network).

In order to provide a "level playing field" between Regulated Companies, developers and new inset appointees, Ofwat will (as soon as primary legislation allows) set out rules whereby:

- deductions from the standard infrastructure charge will replace asset payments and payments for infrastructure laid by new inset appointees; and
- additions to the standard infrastructure charge will replace requisition charges and charges for infrastructure laid by Regulated Companies to facilitate new inset appointments.

These arrangements, which were confirmed in Ofwat's July 2019 decision document "*Charging rules for new connections and new developments for English companies from April*" are to be implemented from April 2020. Their effect is to spread the current proportion of the overall cost of infrastructure for new development among all developers whomever they choose to deal with, whether Regulated Companies, new inset appointees, or self-lay providers. Ofwat's intention is to boost the market for self-lay and new inset appointees.

Updated Guidance on Trading and Procurement Codes

In May 2018, Ofwat released updated guidance on trading and procurement codes titled "*Trading and procurement codes – guidance on requirements and principles*". This guidance covers the requirements and principles that must be addressed in trading and procurement codes for water companies to claim water trading incentives for new trades. Ofwat has revised its guidance to reflect market developments and to provide greater clarity on the requirements for claiming incentives for new trades from 2020 to 2025. Ofwat has streamlined the approval process for new codes, which will now involve a four-week public consultation and, if no comments are received, automatic approval. Ofwat may conduct an annual review of approved codes and provide further guidance to companies by the end of June each year.

Potential Changes to the Strategy for Regulation

In July 2019, Ofwat released a consultation titled *"Ofwat's emerging strategy: driving transformational innovation in the sector"*. Ofwat is seeking to use innovation as a key tool to meet many of the strategic challenges in a cost-effective and sustainable way. Ofwat has sought comments on ways through which innovation can be encouraged in the sector. Some of the proposals include provision of additional financial support, including using certain means of funding to reward successful innovation roll-outs; the use of other potential industry activities to encourage innovation, like the introduction of a sector-wide joint innovation strategy; as well as ways that Ofwat, could itself further encourage innovation in the sector, such as by changing the way it engages with regulated entities and other stakeholders. Ofwat will reach a final decision on the package on innovation interventions for the period 2020-25 by December 2019.

Licence Fees for Water Companies and WSSL Licences

Under standard conditions, appointed water companies and WSSL licensees are required to pay licence fees to Ofwat, the Consumer Council for Water (the "**CCW**") and the CMA. The costs of Ofwat and the CCW in relation to the business retail market are shared between WSSL licensees and appointed water companies.

In March 2019, Ofwat published a decision on its proposed changes, confirming that it will: (i) introduce licence fees for WSSL licensees limited to self-supply, to recover a contribution towards the costs of Ofwat (but not the CCW) on the same basis as for other WSSL licensees (Ofwat will use the same methodology that is currently used to calculate annual licence fees of other WSSL licensees after excluding CCW's relevant costs); and (ii) change the approach to allocating CCW's costs in relation to the business retail market between appointed water companies and WSSL licensees to enable the percentage split of costs for 2019 to 2020 and subsequent financial years to be adjusted year-on-year to reflect the nature of, and number of, complaints CCW has received. In April 2019, Ofwat published an information notice setting out how, when determining the level of licence fees, it will where necessary allocate costs between companies holding appointments as appointed water companies WSSL licensees (replacing a previous information notice of June 2018 on the same).

Customers' Interests

General

Ofwat is responsible for protecting the interests of customers. It monitors the performance and level of service of Regulated Companies and the implementation of a "guaranteed standards" scheme in respect of customer care.

Consumer Council for Water

The Water Act 2003 introduced a new independent consumer council for water consumers (known as "**CC Water**") whose role is to provide information of use to consumers and to promote the interests of all water consumers. CC Water, which came into being on 1 October 2005, replaced WaterVoice, which had previously fulfilled a similar role. CC Water operates through five regional consumer council committees, which typically meet monthly and comprise a chair and about ten members. The council comprises the national chair, five members who chair CC Water committees, four non-executive members and the chief executive. The Water Act 2014 gave CC Water some addition responsibilities, which involve being consulted on developments in relation to the non-household retail market.

SIM

Ofwat introduced a performance assessment called the SIM which replaced its overall performance assessment ("**OPA**") measure. The SIM is designed to focus on the quality of customer service and the customer experience of contact with companies.

Ofwat will replace this mechanism with a new incentive mechanism, WaterworCX, as from AMP7 (see "*PR19: Changes to Price Limits*" above). WaterworCX comprises C-MeX and D-MeX, which are both financial and reputational incentives to improve the satisfaction of Regulated Companies' residential and new connections customers, respectively.

Guaranteed Standards

The GSS is underpinned by regulations made under sections 38(2) to (4), 95(2) to (4) and section 213 of the WIA, which prescribe minimum levels of service in matters such as the keeping of appointments with customers, dealing with enquiries and complaints from customers, giving notice of interruption of supply, installation of meters and dealing with flooding from sewers.

If a Regulated Company does not meet any of the prescribed standards, the customer is entitled to compensation, normally in the region of £20 for domestic customers and £20 or £50 for business customers (although, in the case of sewer flooding, it can be up to £1,000) within 10 working days of the incident. The availability of such compensation is in addition to the availability of any other remedy the customer may have.

The Water Act 2014 extends guaranteed service standards (minimum service standards and payments for service failures) for household and non-household customers to all licensees operating in the retail market.

In August 2018, Ofwat initiated a review of the GSS. The review is predominantly focused on whether the standards and payments for unplanned supply interruptions should be updated. Ofwat's initial call for evidence closed on 11 September 2018, and following its review of the evidence, it will make a recommendation to the UK and Welsh Governments to amend the GSS arrangements in line with its findings. Any changes to GSS will require the English and Welsh Governments to amend the Water Supply and Sewerage Services (Customer Service Standards) Regulations 2017.

SWS has reviewed its policy, procedures and monitoring in relation to appointments, with a focus on identifying past, current and future compliance with the GSS. This review provided confirmation that appointments have not been made in full accordance with GSS in the financial years ending 31 March 2015 to 31 March 2020. The processing of GSS payments to all affected customers is in progress and immediate improvements have been implemented to ensure ongoing compliance.

Abstraction Incentive Mechanism

In April 2016, Ofwat began to apply an Abstraction Incentive Mechanism ("**AIM**"), which is targeted at limiting the levels of abstraction at low flows from sites that are considered potentially environmentally sensitive. The purpose of the AIM is to improve resilience of water supply and ensure it is provided in a sustainable manner.

Code for Adoption Agreements

In its "Code for Adoption Agreements" of November 2017, Ofwat required Regulated Companies operating mainly in England to agree, in consultation with developers and self-lay providers, a standard set of arrangements for adopting water and sewerage infrastructure laid by developers. Regulated Companies are expected to follow the guidance and model adoption agreement under the Code, except in certain circumstances. Among the detail of this Code was a requirement for Regulated Companies to provide "redress" for failing to meet certain standards in the self-lay process. A number of Regulated Companies have offered fixed payments as redress for failure to meet minimum service levels. For AMP7 SWS has one designated AIM scheme in relation to the River Itchen. This AIM scheme is reflected in a performance commitment which has financial rewards and penalties attached to it.

Cayman Islands Data Protection

The Issuer has certain duties under the Data Protection Law, 2017 of the Cayman Islands (the "**DPL**") based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Bonds and the associated interactions with the Issuer and its affiliates and/or delegates, or by virtue of providing the Issuer with personal information on individuals connected with the investor (for example, directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals will be providing the Issuer and its affiliates and/or delegates (including, without limitation, the administrator) with certain personal information which constitutes personal data within the meaning of the DPL. The Issuer shall act as a data controller in respect of this personal data and its affiliates and/or delegates, such as the administrator, may act as data processors (or data controllers in their own right in some circumstances).

By investing in the Bonds, the Bondholders shall be deemed to acknowledge that they have read in detail and understood the privacy Notice set out below and that such privacy Notice provides an outline of their data protection rights and obligations as they relate to the investment in the Bonds.

Oversight of the DPL is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPL by the Issuer could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

Privacy Notice

Introduction

The purpose of this notice is to provide Bondholders with information on the Issuer's use of their personal data in accordance with the DPL.

In the following discussion, "**Issuer**" refers to the Issuer, the administrator and its or their affiliates and/or delegates, except where the context requires otherwise.

Investor Data

By virtue of making an investment in the Issuer and a Bondholder's associated interactions with the Issuer (including any subscription (whether past, present of future), including the recording of electronic communications or phone calls where applicable) or by virtue of a Bondholder otherwise providing the Issuer with personal information on individuals connected with the Bondholder as an investor (for example, directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents), the Bondholder will provide the Issuer with certain personal information which constitutes personal data within the meaning of the DPL ("**Investor Data**"). The Issuer may also obtain Investor Data from other public sources. Investor Data includes, without limitation, the following information relating to a Bondholder and/or any individuals connected with a Bondholder as an investor: name, residential address, email address, contact details, corporate contact information, signature, nationality, place of birth, date of birth, tax identification, credit history, correspondence records, passport number, bank account details, source of funds details and details relating to the Bondholder's investment activity.

In the Issuer's use of Investor Data, the Issuer will be characterised as a "data controller" for the purposes of the DPL. The Issuer's affiliates and delegates may act as "data processors" for the purposes of the DPL.

Who this Affects

If a Bondholder is a natural person, this will affect such Bondholder directly. If a Bondholder is a corporate investor (including, for these purposes, legal arrangements such as trusts or exempted limited partnerships) that provides the Issuer with Investor Data on individuals connected to such Bondholder for any reason in relation to such Bondholder's investment with the Issuer, this will be relevant for those individuals and such Bondholder should transmit the content of this privacy notice to such individuals or otherwise advise them of its content.

How the Issuer May Use a Bondholder's Personal Data

The Issuer, as the data controller, may collect, store and use Investor Data for lawful purposes, including, in particular:

(i) where this is necessary for the performance of the Issuer's rights and obligations under any subscription agreements or purchase agreements;

(ii) where this is necessary for compliance with a legal and regulatory obligation to which the Issuer is subject (such as compliance with anti-money laundering and FATCA/CRS requirements); and/or

(iii) where this is necessary for the purposes of the Issuer's legitimate interests and such interests are not overridden by the Bondholder's interests, fundamental rights or freedoms.

Additionally, the administrator may use Investor Data, for example, to provide its services to the Issuer or to discharge the legal or regulatory requirements that apply directly to it or in respect of which the Issuer relies upon the administrator, but such use of Investor Data by the administrator will always be compatible with at least one of the aforementioned purposes for which SWS processes Investor Data.

Should the Issuer wish to use Investor Data for other specific purposes (including, if applicable, any purpose that requires a Bondholder's consent), the Issuer will contact the applicable Bondholders.

Why the Issuer May Transfer a Bondholder's Personal Data

In certain circumstances the Issuer and/or its authorised affiliates or delegates may be legally obliged to share Investor Data and other information with respect to a Bondholder's interest in the Issuer with the relevant regulatory authorities such as the Cayman Islands Monetary Authority or the Tax Information Authority. They, in turn, may exchange this information with foreign authorities, including tax authorities.

The Issuer anticipates disclosing Investor Data to the administrator and others who provide services to the Issuer and their respective affiliates (which may include certain entities located outside the Cayman Islands or the European Economic Area), who will process a Bondholder's personal data on the Issuer's behalf.

The Data Protection Measures the Issuer Takes

Any transfer of Investor Data by the Issuer or its duly authorised affiliates and/or delegates outside of the Cayman Islands shall be in accordance with the requirements of the DPL.

The Issuer and its duly authorised affiliates and/or delegates shall apply appropriate technical and organisational information security measures designed to protect against unauthorised or unlawful processing of Investor Data, and against accidental loss or destruction of, or damage to, Investor Data.

The Issuer shall notify a Bondholder of any Investor Data breach that is reasonably likely to result in a risk to the interests, fundamental rights or freedoms of either such Bondholder or those data subjects to whom the relevant Investor Data relates.

CHAPTER 7
SUMMARY OF THE FINANCING AGREEMENTS

Please note that any references to Wrapped Bonds in this overview are for informational purposes only. For the avoidance of doubt, the Issuer shall not issue any Wrapped Bonds pursuant to this Prospectus.

For the avoidance of doubt, the Issuer shall not issue any Class B Bonds pursuant to this Prospectus.

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the SWS Financing Group (the "**Intercreditor Arrangements**") are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors and each of the Obligors.

The Secured Creditors include the Class A Debt Providers and the Class B Debt Providers. Any new Authorised Credit Provider (or in respect of Bondholders, the Bond Trustee) will be required to accede to the STID and the CTA as a Class A Debt Provider, a Class B Debt Provider or a provider of Subordinated Debt.

Unsecured creditors are not and will not become parties to the Intercreditor Arrangements and, although ranking behind the Secured Creditors in an administration or other enforcement, will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness is restricted under the Common Terms Agreement.

The purpose of the Intercreditor Arrangements is to regulate, among other things: (i) the claims of the Secured Creditors; (ii) the exercise, acceleration and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during a Standstill Period (see "*Standstill*" below); (v) the Entrenched Rights and the Reserved Matters of the Secured Creditors; and (vi) the giving of consents and waivers and the making of modifications to the Finance Documents.

The Intercreditor Arrangements provide for the ranking in point of payment of the claims of the Secured Creditors and for the subordination of all claims among the SWS Financing Group (other than claims in respect of the Issuer/SWS Loan Agreements funded through the raising of Class A Debt, Class B Debt and Mezzanine Debt).

Undertakings of Secured Creditors

Pursuant to the terms of the STID, each Secured Creditor (other than the Security Trustee) undertakes that it will not, except as expressly contemplated in the CTA, unless the Majority Creditors or, where applicable, the Super-Majority Creditors otherwise agree:

(a) permit or require any Obligor to discharge any of the Secured Liabilities owed to it, save to the extent permitted by the STID, including: (i) the Payment Priorities; and (ii) in the case of the Mezzanine Debt and prepayments of other Financial Indebtedness (other than out of the proceeds of Permitted Financial Indebtedness) the Restricted Payment Condition;

(b) permit or require any Obligor to pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed to it, save to the extent permitted by the CTA or the STID including pursuant to a Permitted Lease Termination or a Permitted Hedge Termination, pursuant to a provision for prepayment upon illegality or, in the case of Mezzanine Debt and prepayments of other Financial Indebtedness (other than out of the proceeds of Permitted Financial Indebtedness), if the Restricted Payment Condition is satisfied;

(c) take, accept or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against financial loss from any of the Obligors in respect of any of the Secured Liabilities owed to it, except the Security and the Financial Guarantees or pursuant to the terms of the Finance Documents;

(d) take or receive from any of the Obligors by cash receipt, set-off, any right of combination of accounts or in any other manner whatsoever (other than set-off in relation to amounts in the Operating Accounts which are owed to the Account Bank or in relation to Standby Drawings owed to a Liquidity Facility Provider under a Liquidity Facility Agreement), the whole or any part of the Secured Liabilities owed to it, save to the extent permitted by the CTA or the STID; or

(e) except as described in "*Modifications, Consents and Waivers*" below, agree to any modification to, or consent or waiver under or in respect of, any term of any Finance Document to which it is a party.

Undertakings of Obligors

Pursuant to the terms of the STID, each Obligor undertakes that it will not, unless the Majority Creditors or, where applicable, the Super-Majority Creditors otherwise agree:

(i) discharge any of the Secured Liabilities owed by it, save to the extent contemplated in paragraph (a) of "*Undertakings of Secured Creditors*" above;

(ii) pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed by it, save to the extent contemplated in paragraph (b) of "*Undertakings of Secured Creditors*" above;

(iii) create or permit to subsist any Security Interest over any of its assets for, or any guarantee, indemnity or other assurance against financial loss in respect of, any of the Secured Liabilities owed by it, except the Security and the Financial Guarantees or pursuant to the terms of the Finance Documents;

(iv) (except as referred to in paragraph (d) of "*Undertakings of Secured Creditors*" above) discharge any of the Secured Liabilities by cash payment, set-off, any right of combination of accounts or in any other manner whatsoever, save to the extent permitted by the CTA or the STID;

(v) without the consent of the Security Trustee or, where applicable, each relevant Secured Creditor (as described in "*Modifications, Consents and Waivers*" below), agree to any modification to, or consent or waiver under or in respect of, any term of any Finance Document to which it is a party; or

(vi) take or omit to take any action whereby any subordination contemplated by the STID may be impaired.

Ranking of Secured Liabilities

The underlying principle of the Intercreditor Arrangements is that at all times the Class A Debt ranks in point of payment prior to any payment in respect of the Class B Debt (including in each case both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security), see Chapter 3 "*Risk Factors*" under "*Classes of Bonds*" for further details. Prior to a Standstill Period, payment dates for Class A Debt and Class B Debt may fall on different dates.

Modifications, Consents and Waivers

Subject to the Entrenched Rights and Reserved Matters (see "*Entrenched Rights and Reserved Matters*" below), the Security Trustee shall only agree to any modification of or grant any consent or waiver under the Finance Documents or (subject to restrictions during a Standstill Period) take Enforcement Action with the consent of or if so instructed by the Majority Creditors or, in certain cases, Super-Majority Creditors. Not all proposals which require the consent of the Majority Creditors or, as the case may be, Super-Majority Creditors will be sent to all Secured Creditors (or their Secured Creditor Representatives, as the case may be).

Subject to the Entrenched Rights and Reserved Matters (see "*Entrenched Rights and Reserved Matters*" below), the Security Trustee shall, without the consent or sanction of any Secured Creditors other than the Secured Creditors (other than the Security Trustee) which are party to an Authorised Credit Facility (a "**Contracting Secured Creditor**") under a particular Authorised Credit Facility or Finance Lease, concur with the Issuer or SWS in making any amendment or modification, or granting any waiver or consent in respect of such Authorised Credit Facility or Finance Lease; provided that such amendment does not prejudice the rights of the Secured Creditors (other than the Contracting Secured Creditors under the relevant Authorised Credit Facility or Finance Lease) and provided further that an authorised signatory of SWS provides a "Permitted Non-Core Document Amendment" certificate.

Subject to the Entrenched Rights and Reserved Matters (see "*Entrenched Rights and Reserved Matters*" below), the Security Trustee may make modifications to the Finance Documents without the consent of any other Secured Creditor if such modifications are to correct manifest errors or are of a formal, minor or technical nature.

Class A Debt Instructing Group

Both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security prior to repayment in full of the Class A Debt, only the Qualifying Class A Debt Providers are eligible to exercise the rights of the Majority Creditors and, where appropriate, Super-Majority Creditors. Decisions of the Majority Creditors and, where applicable, Super-Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors (see "*Entrenched Rights and Reserved Matters*" below).

The Qualifying Class A Debt Providers will exercise their rights through the following representatives which will together be entitled to vote on certain proposals as part of the "**Class A Debt Instructing Group**" or the "**Class A DIG**". The Class A DIG is comprised of the following representatives (each, a "**Class A DIG Representative**"):

(a) in respect of each Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt (if no FG Event of Default has occurred and is continuing in respect of the relevant Financial Guarantor), such Financial Guarantor;

(b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class A Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds, the Bond Trustee;

(c) in respect of the 2019 Bridge Facility Agreement, the 2019 Bridge Facility Agent, in respect of the Existing RCF Agreement, the Existing RCF Agent, in respect of the Initial Term Facility, Artesian II and, in respect of the Second Artesian Term Facility, Financial Security Assurance (U.K.) Limited; and

(d) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (c) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the STID or the relevant Accession Memorandum to the STID and the CTA as the Class A DIG Representative.

Each Class A DIG Representative is required to provide an indemnity to the Security Trustee each time it votes as part of the Class A DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and is continuing and no Emergency Instruction Notice has been served (see "*Emergency Instruction Procedure*" below), the Bond Trustee shall not be entitled to convene a meeting of holders of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors and, where appropriate, Super-Majority Creditors will be determined by votes on a pound-for-pound basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors or, as the case may be, Super-Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 business days (or in certain circumstances five business days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure – see "*Emergency Instruction Procedure*" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class A DIG Representatives in respect of more than 50 per cent. (or 66⅔ per cent. for Super-Majority Creditor decisions) of the Qualifying Class A Debt have voted in favour of the relevant proposal.

Class B Debt Instructing Group

Following repayment in full of the Class A Debt, the Qualifying Class B Debt Providers will be eligible to exercise the rights of the Majority Creditors and, where appropriate, Super-Majority Creditors. After repayment in full of the Class A Debt, decisions of such Majority Creditors or, as the case may be, Super-Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors. See "*Entrenched Rights and Reserved Matters*" below.

The Qualifying Class B Debt Providers will exercise their rights through a group of representatives which will together be entitled to vote on certain proposals as part of the "**Class B Debt Instructing Group**" or the "**Class B DIG**". The Class B DIG will be comprised of the following representatives (each, a "**Class B DIG Representative**"):

(a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the relevant Financial Guarantor), such Financial Guarantor;

(b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class B Wrapped Bonds) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (c) above (excluding liabilities in respect of any Currency Hedging Agreements in relation to Class B Debt) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID as the Class B DIG Representative.

Each Class B DIG Representative is required to provide an indemnity to the Security Trustee each time it votes as part of the Class B DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and no Emergency Instruction Notice has been served (see "*Emergency Instruction Procedure*" below) and is continuing, the Bond Trustee is not entitled to convene a meeting of holders of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class B DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors and, where appropriate, Super-Majority Creditors will be determined by votes on a pound-for-pound basis (based on the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors or, as the case may be, Super-Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 business days (or in certain circumstances five business days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure – see "*Emergency Instruction Procedure*" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. (or 66⅔ per cent. for Super-Majority Creditor decisions) of the Qualifying Class B Debt have voted in favour of the relevant proposal.

Voting by the Bond Trustee as DIG Representative of the Bondholders

Where the Bond Trustee acts as the DIG Representative of some or all of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/or the Unwrapped Bondholders, the Bond Trustee may, both prior to a Default Situation and/or while a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Sub-Classes of Bonds, but shall not, prior to a Default Situation, be entitled to convene a meeting of any Series, Class or Sub-Class of Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Series, Class or Sub-Class of Bondholders).

Additionally, while a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of Bonds, the Bond Trustee shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee in accordance with an extraordinary resolution of the relevant Sub-Class of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See "*Emergency Instruction Procedure*" below.

Emergency Instruction Procedure

While a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an emergency instruction procedure (the "**Emergency Instruction Procedure**") which is subject to Entrenched Rights and Reserved Matters. The Security Trustee will be required to act upon instructions contained in an emergency instruction notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by DIG Representatives (the "**EIN Signatories**") representing 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt (or following the repayment in full of the Class A Debt, the Qualifying Class B Debt) after excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee in its absolute discretion has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that in the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced.

Hedge Counterparties

Each Hedge Counterparty is or will be a Secured Creditor party to the STID and the CTA and each Hedging Agreement to hedge the currency of any Class A Debt or to hedge interest rates constitutes or will constitute Class A Debt or, if entered into to hedge the currency of any Class B Debt, Class B Debt.

The Hedge Counterparties will not form part of the Class A DIG or, in the case of any Currency Hedging Agreement in relation to Class B Debt, the Class B DIG. However, except in relation to certain amounts payable by the Issuer under any Currency Hedging Agreement in relation to Class B Debt, all fees, interest and principal payable by the Issuer to the Hedge Counterparties will rank in the Payment Priorities senior to or *pari passu* with interest or principal payments on the Class A Bonds. See "*Cash Management*" and "*Hedging Agreements*" below.

Liquidity Facility Providers

Each Liquidity Facility Provider is or will be a Secured Creditor party to the STID and the CTA and each Liquidity Facility Agreement constitutes or will constitute Class A Debt.

The Liquidity Facility Providers will not form part of the Class A DIG. However, fees, interest and principal of the Liquidity Facility Providers will rank in the Payment Priorities senior to interest and principal payments on the Class A Bonds. See "*Cash Management*" and "*The Liquidity Facilities*" below.

Finance Lessors

Each Finance Lessor will be a Secured Creditor party to the STID and all amounts arising under the Finance Leases will constitute Class A Debt.

Amounts due and payable under the Finance Leases are dealt with in "*Cash Management*" below.

Standstill

The STID provides for an automatic standstill of the claims of the Secured Creditors against SWS and the Issuer (the "**Standstill**") immediately following notification to the Security Trustee of an Event of Default (other than an Event of Default under any Hedging Agreement with respect to a Hedge Counterparty under such Hedging Agreement) and for so long as any Class A Debt and/or Class B Debt is outstanding.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against SWS on the grounds of its insolvency or otherwise. Although not binding on unsecured and trade creditors and hence potentially giving such unsecured and trade creditors a position of greater strength upon an Event of Default, it is intended to enable SWS to continue as a going concern and to allow time for the financial condition of SWS to be restored.

During the Standstill Period:

(a) none of the Secured Creditors will be entitled to give any instructions to the Security Trustee to take any Enforcement Action (but without prejudice to the ability of the Secured Creditors to demand payment) in relation to the Security granted by the Issuer or SWS;

(b) the Security granted by SWSGH and SWSH may be enforced at any time by the Security Trustee at the direction of the Majority Creditors except in the case of a Standstill Period which has commenced as a result of the occurrence of the Event of Default pursuant to a rating downgrade of the Bonds (no other Event of Default having occurred and being outstanding), in which case such Security may only be enforced at any time following the date which is three months from the date of commencement of the Standstill Period provided that such Event of Default is continuing at such time;

(c) save as provided in paragraphs (a) and (b) above, no Enforcement Action may be taken by any Secured Creditor; and

(d) any monies received by SWS or the Issuer will be applied in accordance with the cash management provisions contained in the CTA (see "*Cash Management*" below) and in accordance with the Payments Priorities (see "*Cash Management – Debt Service Payment Account*" below).

Notwithstanding the Standstill, the Secured Creditors will be entitled to accelerate their claims to the extent required to apply proceeds of enforcement of the Share Pledges provided by SWSH and SWSGH under the Security Documents.

The period of the Standstill in respect of any Event of Default relating to SWS and/or the Issuer (the "**Standstill Period**") will be 18 months unless the Standstill Period is extended beyond 18 months (see "*Standstill Extension*" below) or any of the following occur prior to the expiry of the relevant Standstill Period:

(a) an order is made for the Special Administration of SWS or any steps are taken to commence insolvency proceedings against the Issuer or SWS other than proceedings that are commenced by the Security Trustee;

(b) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class B Debt vote to terminate the Standstill Period and (after the first 18 months) the date on which the Standstill Period terminates (see "*Standstill Extension*" below);

(c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period; or

(d) the Security Trustee notifies SWS and each Secured Creditor (or its DIG Representative) that notice by any Secured Creditor of the occurrence of the relevant Event of Default has been revoked.

The occurrence of a Standstill will not of itself prevent the Issuer drawing under the Liquidity Facilities.

Upon termination of a Standstill Period (except by virtue of the matters referred to in paragraphs (c) and (d) above), each Secured Creditor will be entitled to exercise all rights which may be available to it under any Finance Document to which it is a party (other than any Security Document) including directing the Security Trustee to take Enforcement Action.

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

(a) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 120 days to terminate the Standstill Period;

(b) following the period referred to in paragraph (a) above, for a further 60 days unless Class A DIG Representatives in respect of 33 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 60 days to terminate the Standstill Period; and

(c) following the period referred to in paragraph (b) above, for successive periods each of 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 60 days to terminate the Standstill Period and a vote shall be taken of the relevant Class A DIG Representatives on the expiry of each subsequent period of 60 days for so long as the Standstill Period continues as to whether the Standstill Period should continue for a further period of 60 days.

The Bond Trustee shall not form part of the Class A DIG in respect of any vote to terminate the Standstill Period, unless directed or requested to vote in such manner: (i) by an Extraordinary Resolution of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Class A Wrapped Bonds) or Class A Unwrapped Bonds; or (ii) in writing by Bondholders holding not less than 25 per cent. of the Outstanding Principal Amount of the relevant Sub-Class of Class A Bonds.

When the Class A Debt has been fully repaid, the rights to terminate the Standstill Period as described above shall be vested in the Class B DIG Representatives.

The period of Standstill in respect of any Event of Default other than an Event of Default relating to SWS and/or the Issuer will terminate upon the earlier of: (a) the date of the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period; and (b) the date on which the Security Trustee notifies SWS and each Secured Creditor (or its DIG Representative) that notice by any Secured Creditor of the occurrence of the relevant Event of Default has been revoked.

Enforcement

Following an Event of Default and for so long as it is continuing, the Majority Creditors may direct the Security Trustee to enforce the Security created by SWSGH and SWSH; following the termination of a Standstill Period (except under paragraph (c) or (d) of "*Standstill*" above), the Majority Creditors may direct the Security Trustee to enforce the Security created by SWS and the Issuer.

Subject to certain matters and to certain exceptions, following an enforcement, any proceeds of enforcement or other monies held by the Security Trustee under the STID (excluding monies credited to the Excluded Accounts) will be applied by the Security Trustee in accordance with the Payment Priorities (see "*Debt Service Payment Account*" below).

The holders of the SWS Preference Shares and the Mezzanine Facility Providers are subject to certain call option arrangements under which they will be required (subject to certain conditions) to sell their SWS Preference Shares (other than the Class A2 Preference Shares) or, as the case may be, their Mezzanine Debt in the event that the Security Trustee or any receiver appointed by it sells the ordinary shares in SWSH or SWS following the enforcement of the Security created by SWSGH or SWSH. In this event, the holders of the SWS Preference Shares will be required to sell their shares (other than the Class A2 Preference Shares) to the person that acquires the ordinary shares in SWSH or SWS on an enforcement of the Security created by SWSGH or SWSH (or to any nominee of such person) for a price to be determined in accordance with the SWS Preference Share Deed (see "*SWS Preference Shares*" below) and the Mezzanine Facility Providers will be required, if any of their Mezzanine Debt remains outstanding following the application of the proceeds of such enforcement of Security pursuant to the Payment Priorities, to sell their debt at its market value (likely to be a nominal amount). There is no Junior Mezzanine Debt outstanding. The rights of the holders of the Class A2 Preference Shares shall be deferred upon any sale of the other SWS Preference Shares pursuant to these call option arrangements.

Excluded Accounts

Although the Issuer has pursuant to the Security Agreement created first fixed charges over the Excluded Accounts in favour of the Security Trustee, the Security Documents provide that, on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedge Termination or Permitted Share Pledge Acceleration), all monies held in the Issuer's O&M Reserve Account and the Debt Service Reserve Account will be held by the Security Trustee on trust for the relevant Liquidity Facility Providers whose commitments have been drawn to fund the Issuer's O&M Reserve Account or, as the case may be, the Debt Service Reserve Account and in the proportions that their respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreement bear to the balance on the O&M Reserve Account or, as the case may be, the Debt Service Reserve Account.

Accession of Additional Secured Creditors

The STID requires that, to the extent that SWS and/or the Issuer wishes any Authorised Credit Provider (or, in respect of Bonds, its Secured Creditor Representative) or other person to obtain the benefit of the Security, such Authorised Credit Provider or other person (other than Bondholders) must sign an Accession Memorandum whereby it agrees to be bound by the terms of the STID and the CTA, including those provisions which prohibit individual Secured Creditors from taking action without the consent of the Majority Creditors or, where appropriate, the Super-Majority Creditors. The STID provides that on or before the relevant Accession Date, a proposed Additional Secured Creditor must deliver to the Security Trustee (among other things) a legal opinion as to: (i) due incorporation, capacity and authorisation of such Additional Secured Creditor and (ii) the binding effect of the STID, the Accession Memorandum and any Supplemental Deed on such proposed Additional Secured Creditor. This does not apply to any regulated financial or credit institution, who, in lieu of providing a legal opinion, is required to make representations and warranties covering: (i) the same matters as the legal opinion; and (ii) that it is a regulated entity. Holders of SWS Preference Shares who, by virtue of the terms of the SWS Preference Shares, become holders of Subordinated Debt upon the conversion of the SWS Preference Shares into Subordinated Debt may elect to accede to (or cause its trustee to accede to) the terms of the STID and the CTA as a Secured Creditor for the reasons described immediately above.

Activities of the Security Trustee

Subject to its Entrenched Rights and Reserved Matters and certain exceptions, the Security Trustee will only be required to take any action if instructed to do so by the Majority Creditors or, in particular cases, other specified parties and indemnified to its satisfaction.

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the Finance Documents or any ancillary documents, the Security Trustee will act in accordance with its sole discretion (where granted such right) or as directed, requested or instructed by or subject to the agreement of the Majority Creditors or, where appropriate, the Super-Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

Super-Majority Creditor Decisions

While most of the decisions relating to any waiver, consent or modification under or in respect of a Finance Document require the approval of the Majority Creditors (subject always to the Entrenched Rights and Reserved Matters of Secured Creditors), the STID provides that a limited number of decisions (relating to the ability of the Obligors to raise further Financial Indebtedness or create Security Interests) require the approval of the Super-Majority Creditors.

Entrenched Rights and Reserved Matters

Modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors or, where appropriate, Super-Majority Creditors, subject to Entrenched Rights and Reserved Matters. Such modifications, consents and waivers will be binding on all of the Secured Creditors, subject to Entrenched Rights and Reserved Matters. No Entrenched Right or Reserved Matter will operate to override the provisions contained in the CTA which allow SWS (following a Periodic Review or as a result of any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default provided that each Financial Guarantor and the Security Trustee (acting on the instructions of the Majority Creditors) agree and the relevant ratings set out in the definition of Rating Requirement (in relation to the Class A Bonds) at the time of their issue have been affirmed by all Rating Agencies then rating the Class A Bonds.

Lists of Entrenched Rights and Reserved Matters are contained in "*Entrenched Rights*" and "*Reserved Matters*" below.

Entrenched Rights

Entrenched Rights are rights that cannot be modified or waived in accordance with the STID without the consent of the Secured Creditor having the Entrenched Right.

The Entrenched Rights of the Class A Debt Providers include, subject to certain provisions of the CTA including the right to amend financial ratios following a Periodic Review or as a result of a material change in the regulation of the water industry in the United Kingdom, any proposed modification to, or consent or waiver under or in respect of, the STID or any other Finance Document which:

(a) the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document; or (ii) would alter the rights of priority of, or the enforcement by, the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;

(c) would change or would relate to the Payment Priorities;

(d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class A Debt Provider's Entrenched Rights or Reserved Matters;

(e) would change or would relate to: (i) the definitions of "Class A DIG", "Class A DIG Representatives", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Restricted Payment", "Restricted Payment Condition", "Qualifying Class A Debt", "Super-Majority Creditors" or "Voted Qualifying Class A Debt"; (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors, Super-Majority Creditors or the Security Trustee; or (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Class A Debt required to terminate a Standstill;

(f) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class A Debt Provider's Class A Debt or of any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable in respect of such Class A Debt or the amount of any fees or premia in respect thereof;

(g) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof;

(h) would result in the exchange of the relevant Class A Debt Provider's Class A Debt for, or the conversion of such Class A Debt into, shares, bonds or other obligations of any other person;

(i) would change or would relate to the currency of payment due under the relevant Class A Debt Provider's Class A Debt (other than due to the United Kingdom joining the euro);

(j) (subject to paragraph (k) below) would change any Event of Default or any Trigger Event relating to financial ratios or credit rating downgrade;

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment, credit rating downgrade or financial ratios or the making of Restricted Payments (see "*Common Terms Agreement – Trigger Events*" and "*Events of Default*" below);

(l) would change or would relate to the rights of the relevant Class A Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class A Debt Provider); or

(m) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class A Debt Provider's Class A Debt in the event of the imposition of withholding taxes.

The Entrenched Rights of the Class B Debt Providers include, subject to certain provisions of the CTA including the right to amend financial ratios following a Periodic Review or as a result of a material change in the regulation of the water industry in the United Kingdom, any proposed modification to, or consent or waiver under or in respect of, the STID or any other Finance Document which:

(a) the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document; or (ii) would alter the rights of priority of or the enforcement by the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;

(c) would change or would relate to the Payment Priorities;

(d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class B Debt Provider's Entrenched Rights or Reserved Matters;

(e) would change or would relate to: (i) the definitions of "Class B DIG", "Class B DIG Representatives", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Restricted Payment", "Restricted Payment Condition", "Super-Majority Creditors", "Qualifying Class B Debt" or "Voted Qualifying Class B Debt"; (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee; or (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Class B Debt required to terminate a Standstill;

(f) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class B Debt Provider's Class B Debt or any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable on any date in respect of such Class B Debt or any fees or premia in respect thereof;

(g) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof;

(h) would result in the exchange of the relevant Class B Debt Provider's Class B Debt for, or the conversion of such Class B Debt into, shares, bonds or other obligations of any other person;

(i) would change or would relate to the currency of payment under the relevant Class B Debt Provider's Class B Debt (other than due to the United Kingdom joining the euro);

(j) (subject to paragraph (k) below) would change any Event of Default or any Trigger Event relating to financial ratios or credit rating downgrade;

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment, credit rating downgrade or financial ratios or the making of Restricted Payments (see "*Common Terms Agreement – Trigger Events*" and "*Events of Default*" below);

(l) would change or would relate to the rights of the relevant Class B Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class B Debt Provider); or

(m) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class B Debt Provider's Class B Debt in the event of the imposition of withholding taxes.

The Entrenched Rights of the Finance Lessors include, in addition to the Entrenched Rights of the Class A Debt Providers set out above, any proposed modification to, or consent or waiver under or in respect of, the STID or any other Finance Document which would change or relate to:

(a) any sale, transfer or other disposal (whether deemed or otherwise) of any of the Equipment;

(b) the affixing of any Equipment to any land or building to which SWS or the Issuer (as applicable) does not have an interest in such land for the purposes of the Capital Allowances Act 2001;

(c) the creation or subsistence of any encumbrance, lien, mortgage or other Security Interest over any Equipment;

(d) any of the covenants or representations and warranties set out in the Finance Documents which relate to the maintenance or condition of the Equipment;

(e) any provision(s) contained in the Finance Documents pertaining to any damage, destruction or total loss of any of the Equipment;

(f) any elections filed with HM Revenue & Customs by SWS or the Issuer (as applicable) and any Finance Lessor under the Finance Leases pursuant to Sections 177 and/or 227 of the Capital Allowances Act 2001 in respect of the Equipment and the relevant Finance Lessor's expenditure on the Equipment;

(g) the provisions relating to the calculation of rental payments and/or sums due upon termination of the leasing of any Equipment; and

(h) any changes to the Entrenched Rights of the Finance Lessors set out in paragraphs (a) to (g) above.

Entrenched Rights of the Mezzanine Facility Providers

The Mezzanine Facility Providers enjoy some of the same Entrenched Rights as apply to the Class B Debt Providers insofar as is necessary to protect the fundamental terms of their investment. In addition:

(a) for so long as no Default has occurred and is continuing, no modification can be made which would have the effect of changing or supplementing any of the provisions contained in Paragraph 37 "*Restricted*

Payments" of Part 3 under Schedule 5 (*Covenants*) to the Common Terms Agreement; any of the Trigger Events contained in Part 1 under Schedule 6 (*Trigger Events*) to the Common Terms Agreement; any of the remedies to Trigger Events contained in Part 3 of Schedule 6 (*Trigger Events*) to the Common Terms Agreement; or any of the Events of Default set out in Schedule 7 (*Events of Default*) to the Common Terms Agreement, in each case where the effect of such change or supplement would or might reasonably be expected to be adverse to the interests of a Mezzanine Facility Provider; or

(b) unless and until (i) an Event of Default has occurred and is continuing or (ii) a Trigger Event has occurred and is continuing and a Remedial Plan has concluded that the failure to raise new Financial Indebtedness would or could reasonably be expected to lead to an Event of Default and provided that the Security Trustee has received an Entrenched Rights or Reserved Matters Notice from any Mezzanine Facility Provider (or its Secured Creditor Representative), no modification to, or consent or waiver under or in respect of, any term of the STID and/or any other Finance Document will be effective if the proposed modification, consent or waiver would permit the raising of new Financial Indebtedness by the SWS Financing Group to the extent that, as a result, the aggregate of the Senior Net Indebtedness and any other net indebtedness ranking in point of priority senior to the Senior Mezzanine Debt would exceed 90 per cent. of RCV,

unless the Security Trustee has received written consent to such modification, consent or waiver from at least 66⅔ per cent. by value of Mezzanine Facility Providers of the Senior Mezzanine Facility (or from its Secured Creditor Representative).

The Entrenched Rights of the Class A Debt Providers, the Class B Debt Providers, the Finance Lessors and the Senior Mezzanine Debt Providers (where applicable) will be exercised through their Secured Creditor Representatives.

The Bond Trustee, the Security Trustee, the Hedge Counterparties and the Financial Guarantors have certain other limited Entrenched Rights in relation to any provisions of the Finance Documents that generally affect them to a greater extent than others.

Reserved Matters

Reserved Matters are matters which, subject to the Intercreditor Arrangements and the CTA, a Secured Creditor is free to exercise in accordance with its own facility arrangements and so are not exercisable by or by direction of the Majority Creditors.

Those Reserved Matters which each Secured Creditor reserves to itself to decide are each and every right, power, authority and discretion of, or exercisable by, each such Secured Creditor at any time:

(a) to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Authorised Credit Facility to which it is a party (as permitted under the CTA);

(b) to make determinations of and require the making of payments due and payable to it under the provisions of the Authorised Credit Facilities to which it is a party (as permitted under the CTA);

(c) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the CTA and the STID;

(d) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;

(e) to assign its rights or transfer any of its rights and obligations under any Authorised Credit Facility subject always to the requirement of the assignee or transferee to accede to the CTA and the STID as a Secured Creditor;

(f) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules to the relevant Finance Lease (or the equivalent provisions thereunder relating to the calculation of Rental or termination sums) and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;

(g) in the case of each Hedge Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination; and

(h) in the case of any Secured Creditor, to accelerate their claims, to the extent necessary to apply proceeds of enforcement of the Share Pledges provided by SWSGH and SWSH pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee, the Senior Mezzanine Facility Lenders, the Hedge Counterparties and the Financial Guarantors each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and each Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Financial Guarantee. For the Security Trustee, these include rights vested in it pursuant to the terms of the STID.

Those Reserved Matters which the Bond Trustee reserves to itself are every right, power, authority and discretion of, or exercisable by, the Bond Trustee (in respect of paragraphs (xiv) to (xix) below, in relation to any Sub-Class of Class A Unwrapped Bonds or Class B Unwrapped Bonds and (where an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Sub-Class of Wrapped Bonds) any such Sub-Class of Class A Wrapped Bonds or Class B Wrapped Bonds), whether expressed as a right, power, authority or discretion of the Bond Trustee or obligation of any other party:

(i) to make any determination contemplated or required under the Bond Trust Deed as to the occurrence or otherwise of an FG Event of Default, in relation to its Reserved Matters and in relation to its Entrenched Rights;

(ii) to agree to make any amendment or any waiver or consent which has the effect of resulting in or permitting any amendment to the provisions of any Financial Guarantee;

(iii) to make any claim under, or enforce any provision of, any Financial Guarantee;

(iv) which is provided for the purpose of enabling the Bond Trustee to protect its own position and interests in its personal capacity (including its own personal financial interests) or which the Bond Trustee determines to be necessary or appropriate to exercise for the protection of its own position and interests in its personal capacity;

(v) to determine amounts due in relation to and to claim under indemnities in favour of the Bond Trustee in its own capacity or for and on behalf of Bondholders under the Finance Documents;

(vi) to receive any amounts owing to it for its own account in accordance with the provisions of the Finance Documents;

(vii) to determine the amount of sums due in relation to expenses and stamp duties pursuant to the Finance Documents;

(viii) to make a claim for expenses under the Finance Documents;

(ix) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;

(x) which relieves or exempts the Bond Trustee from liability and exculpates or exonerates it (including, without limitation, any right of the Bond Trustee under any of the Finance Documents to make assumptions as to, or rely on any notice, certificate or other communication confirming, the existence or non-existence of any act, circumstance or event);

(xi) against or in relation to the relevant Bondholders;

(xii) under the Fourth Schedule (*Provisions for Meetings of Bondholders*) of the Bond Trust Deed;

(xiii) the right to appoint a co-trustee or to retire under, as the case may be, Clause 24 (*New Bond Trustee*) and Clause 25 (*Bond Trustee's Retirement and Removal*) of the Bond Trust Deed;

(xiv) the publication of an Interest Rate or Interest Amount, as the case may be, in accordance with Condition 6(o) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(xv) the determination of amounts in accordance with Condition 6(o) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(xvi) the selection of or made by an Indexation Adviser in accordance with Condition 7(a) (*Definitions*) and 7(c)(ii) (*Changes in Circumstances Affecting the Index – Delay in publication of Index*);

(xvii) the consideration and approval in relation to a substitute index figure in accordance with Conditions 7(e)(i) to (iii) inclusive (*Cessation of or Fundamental Changes to the Index*);

(xviii) the variation, termination and appointment of Agents in accordance with Condition 9(e) (*Appointment of the Agents*); and

(xix) to consent to any proposed amendment to, as the case may be, the Bond Trust Deed, the relevant Conditions or any Finance Document to which it is a party whether such consent is sought to correct a manifest error or is of a formal, minor or technical nature (and, for the avoidance of doubt, any other matter referred to in Clause 19 (*Modification, Consent and Waiver*) of the Bond Trust Deed will be subject to the directions of the Majority Creditors).

Those Reserved Matters which each Financial Guarantor reserves to itself are each and every right, power, authority and discretion of, or exercisable by, the relevant Financial Guarantor at any time in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds for which it has issued a Financial Guarantee (except if an FG Event of Default in respect of such Financial Guarantor is continuing) in relation to:

(a) the publication of an Interest Rate or Interest Amount in accordance with Condition 6(o) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(b) the determination of amounts in accordance with Condition 6(o) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(c) the selection of or made by an Indexation Adviser in accordance with Condition 7(a) (*Definitions*) and 7(c)(ii) (*Changes in Circumstances Affecting the Index – Delay in publication of Index*);

(d) the consideration and approval in relation to a substitute index figure in accordance with Condition 7(e)(i) to (iii) inclusive (*Cessation of or Fundamental Changes to the Index*); and

(e) the variation, termination and appointment of Agents in accordance with Condition 9(e) (*Appointment of the Agents*).

Each Financial Guarantor of Wrapped Debt (other than Wrapped Bonds) has and will have similar matters reserved to it in respect of the determination of interest, interest amounts and repayment amounts, the selection of an indexation adviser, approval of substitute index figure, variation, termination and appointment of Agents under the Authorised Credit Facility under which such Wrapped Debt is incurred by SWS or the Issuer in addition to any amendment to Part C (*Financial Guarantor Reserved Matters*) of Schedule 3 to the STID.

Those Reserved Matters which the Security Trustee reserves to itself are each and every right, power, authority and discretion of, or exercisable by, the Security Trustee, whether expressed as a right, power, authority or discretion of the Security Trustee or an obligation of any other party:

(i) pursuant to the STID;

(ii) to receive any sums owing to it for its own account in respect of fees, costs, charges, liabilities, damages, proceedings, claims and demands in performing its powers and exercising its discretions under the STID and any other Finance Document to which the Security Trustee is a party;

(iii) which is provided for the purpose of enabling the Security Trustee to protect its own position and interests in its personal capacity (including its own personal financial interest) or which the Security Trustee determines to be necessary or appropriate to exercise for the protection of its own position and interests in its personal capacity;

(iv) except as otherwise specifically provided in the STID, to apply any of the sums referred to in Clause 15 (*Activities of the Security Trustee*) of the STID in accordance with such Clause;

(v) to receive notices, certificates, communications or other documents or information, to direct that such notices, certificates, communications or other documents or information must be provided (or must not be provided) to it or (subject to the disclosure of information provisions of the CTA) any other party, or, where applicable, to determine the form and content of any notice, certificate, communication or other document;

(vi) which relieves or exempts the Security Trustee from liability or exculpates or exonerates it (including, without limitation, any right of the Security Trustee under any of the Finance Documents to make assumptions as to, or rely on any notice, certificate or other communication confirming, the existence or non-existence of any act, circumstance or event);

(vii) to determine amounts due in relation to and to claim under indemnities in favour of the Security Trustee under Clause 15.5 (*Indemnification of the Security Trustee*) or Clause 16 (*Remuneration and Indemnification of the Security Trustee*) of the STID or pursuant to any other Finance Documents;

(viii) to appoint a co-trustee or to retire under Clause 17 (*Appointment of Additional Trustees*) and Clause 19.6 (*Resignation of the Security Trustee*) of the STID; and

(ix) to agree modifications to, or give any consent or grant any waiver under or in respect of, any term of the STID or any other Finance Document to which the Security Trustee is a party or over which it has Security under the Security Documents in accordance with Clause 8.2 (*Procedures for Modifications, Consents and Waivers*) of the STID.

Substitution of the Issuer

The Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies. The implementation of any such proposal is an Entrenched Right of the Bond Trustee and each Financial Guarantor.

Intercompany Loan Arrangements

Issuer/SWS Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time (whether through the issue of Bonds or raising of debt under Authorised Credit Facilities) is and will be backed by an aggregate matching debt obligation owed by SWS to the Issuer under a loan agreement (each, an "**Issuer/SWS Loan Agreement**"). As such, the Issuer/SWS Loan Agreements demonstrate capacity to produce funds to service any payments due and payable on the Bonds.

In the case of the initial Issuer/SWS Loan Agreement entered into on the Initial Issue Date (the "**Initial Issuer/SWS Loan**"), the aggregate nominal amount of all Financial Indebtedness raised through the issue of Bonds and the raising of Mezzanine Debt and the Initial Term Facility on the Initial Issue Date was lent by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement on the Initial Issue Date. Each advance under the Initial Issuer/SWS Loan Agreement corresponds to the principal amount of the relevant Sub-Class of Bonds issued on the Initial Issue Date, the principal amount of the Senior Mezzanine Debt and the Junior Mezzanine Debt or, as the case may be, other debt under the Initial Term Facility raised by the Issuer on the Initial Issue Date.

The Issuer advanced the proceeds of the Second Artesian Term Facility to SWS under an Issuer/SWS Loan Agreement dated 5 July 2004 (the "**Second Issuer/SWS Loan Agreement**"). The advance under the Second Issuer/SWS Loan Agreement is equal to the principal amount of the Second Artesian Term Facility.

The Issuer advanced to SWS the proceeds of each Sub-Class of Series 2 Bonds under an Issuer/SWS Loan Agreement dated 27 May 2005 (the "**Third Issuer/SWS Loan Agreement**"). Each advance under the Third Issuer/SWS Loan Agreement is equal to the principal amount of the corresponding Sub-Class of Series 2 Bonds.

The Issuer advanced to SWS the proceeds of the Series 3 Bonds under an Issuer/SWS Loan Agreement dated 18 October 2006 (the "**Fourth Issuer/SWS Loan Agreement**"). The advance under the Fourth Issuer/SWS Loan Agreement is equal to the principal amount of the Series 3 Bonds.

The Issuer advanced to SWS the proceeds of the Series 4 Bonds under an Issuer/SWS Loan Agreement dated 17 July 2007 (the "**Fifth Issuer/SWS Loan Agreement**"). The advance under the Fifth Issuer/SWS Loan Agreement is equal to the principal amount of the Sub-Class of Series 4 Bonds.

The Issuer advanced to SWS the proceeds of the Series 5 Bonds under an Issuer/SWS Loan Agreement dated 27 February 2009 (the "**Sixth Issuer/SWS Loan Agreement**"). The advance under the Sixth Issuer/SWS Loan Agreement is equal to the principal amount of the Sub-Class of Series 5 Bonds.

The proceeds of all Financial Indebtedness raised by the Issuer through the further issue of Bonds or raising of debt under any Authorised Credit Facility (other than the DSR Liquidity Facilities) will be lent to SWS under further Issuer/SWS Loan Agreements in order that such Financial Indebtedness will be backed by a debt obligation owed to the Issuer under such Issuer/SWS Loan Agreement. Such debt will be subdivided into advances such that each advance corresponds to the principal amounts of the relevant Tranche, Sub-Class or Class of Bonds issued or the principal amount of debt raised under the relevant Authorised Credit Facility or Facilities by the Issuer.

All advances made or to be made by the Issuer under the Issuer/SWS Loan Agreements are or will be in Sterling and in amounts and at rates of interest set out in the relevant Final Terms or Authorised Credit Facility or, if hedged in accordance with the Hedging Policy (see "*Hedging Agreements*" below), at the hedged rate plus, in each case, a small margin and will have interest payment dates on the same dates as the related Bonds or advance under the relevant Authorised Credit Facility. Interest on each advance made under an Issuer/SWS Loan

Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the same date as the related Bonds or advance under the relevant Authorised Credit Facility.

The obligations of SWS under each Issuer/SWS Loan Agreement are or will be secured pursuant to the Security Agreement, and such obligations are or will be guaranteed by SWSH and SWSGH in favour of the Security Trustee, who holds or will hold the benefit of such security on trust for the Secured Creditors (including the Issuer) on the terms of the STID.

The Issuer's obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from SWS under each Issuer/SWS Loan Agreement.

SWS agrees to make payments free and clear of any withholding on account of tax unless it is required by law to do so – in such circumstances SWS will gross-up such payments.

In the Common Terms Agreement, SWS makes certain representations and warranties (as more fully set out under "*Common Terms Agreement – Representations*" below) to each Finance Party (which includes the Issuer as lender under an Authorised Credit Facility).

Each Issuer/SWS Loan Agreement is or will be governed by English law and subject to the exclusive jurisdiction of the English courts (except that the Issuer alone may commence proceedings in any other court with jurisdiction).

Fees Generally

The Issuer is responsible for paying the fees and expenses of the Bond Trustee, the Security Trustee, the Paying Agents, the Registrar, the Transfer Agents, the Agent Bank, the Issuer's legal advisers, accountants and auditors, certain fees due to Financial Guarantors of Wrapped Debt and to liquidity providers.

SWS, by way of facility fees under the Issuer/SWS Loan Agreements, pays to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees and expenses.

Common Terms Agreement

General

Each of the Initial Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Liquidity Facility Providers, the Initial Term Facility Provider, each Obligor, the Initial Mezzanine Facility Providers, the Bond Trustee, the Initial Financial Guarantors, the Principal Paying Agent, the Transfer Agent, the Registrar and others entered into a common terms agreement dated 23 July 2003 (as amended from time to time) (the "**Common Terms Agreement**" or "**CTA**"). The Common Terms Agreement sets out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which apply to each Authorised Credit Facility (including, for the avoidance of doubt, the Issuer/SWS Loan Agreements, Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the Common Terms Agreement that any representations, covenants (to the extent of being able to declare an Event of Default), Trigger Events and Events of Default contained in any document which is in addition to those in the Common Terms Agreement and any other Common Agreement and any other exception expressly set out in the CTA will be unenforceable (save for limited exceptions which, among other things, include covenants relating to indemnities, covenants to pay, covenants relating to remuneration, costs and expenses, representations and covenants in each Class or Sub-Class of Bonds and certain provisions under the Hedging Agreements and the Finance Leases). The Common Terms Agreement allows SWS (following a Periodic Review or any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default, provided that each Financial Guarantor and the Security Trustee (acting on the instructions of the Majority Creditors) agree and the relevant ratings set out in the definition of Rating Requirement (in relation to the Class A Bonds) at the time of their issue have been affirmed by all Rating Agencies then rating the Class A Bonds.

The Common Terms Agreement also sets out the cash management arrangements to apply to the SWS Financing Group (see "*Cash Management*" below). It is a requirement of the Common Terms Agreement that future providers of Authorised Credit Facilities must also accede to the Common Terms Agreement and the STID.

A summary of the representations, covenants, Trigger Events and Events of Default included in the Common Terms Agreement is set out below.

Representations

On the Initial Issue Date each Obligor made a number of representations in respect of itself to each Finance Party. These representations include (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) representations as to:

(i) its corporate status, power and authority (a) to enter into and perform its obligations under the Transaction Documents and (b) to own, lease and operate its assets and to carry on its business;

(ii) its obligations under the Transaction Documents being its legal, valid and enforceable obligations;

(iii) its entry into and performance under the Transaction Documents not conflicting with any document which is binding upon its assets (or, in the case of SWS, its material assets), its constitutional documents or any material applicable law (save in the case of SWS and the Instrument of Appointment to the extent that such conflict has been waived by Ofwat to the reasonable satisfaction of the Security Trustee);

(iv) the preparation of its financial statements in accordance with Applicable Accounting Principles and that such financial statements give a true and fair view of its financial condition;

(v) no event having occurred or circumstance having arisen since the date of the last financial statements which has a Material Adverse Effect (except for any announcement of K from time to time);

(vi) except as disclosed in its financial statements, it not being subject to any contingent liabilities or commitments that would be reasonably likely to have a Material Adverse Effect;

(vii) the validity and admissibility in evidence of the Finance Documents in any proceedings in the jurisdiction of its incorporation;

(viii) the Security Documents to which it is party conferring the Security Interests they purport to confer and such Security Interests not being subject to any prior or *pari passu* Security Interest (other than a Permitted Security Interest);

(ix) the conduct of its business not violating any judgment, law or regulation, which if enforced would have a Material Adverse Effect;

(x) no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents;

(xi) the obtaining by it prior to the Initial Issue Date of all consents and approvals necessary for the conduct of SWS's business and the transactions in the Finance Documents which if not obtained or complied with, or which if revoked or terminated, would either: (i) have a Material Adverse Effect or (ii) not be in the normal course of business and Good Industry Practice generally;

(xii) its ownership of, or interests in, the assets over which it has created Security Interests under the Security Documents and which are material to the operation of its business;

(xiii) insurances required to be maintained under any Finance Document being in full force and effect where failure to maintain would be reasonably likely to have a Material Adverse Effect;

(xiv) there being no insolvency event in relation to it;

(xv) the ownership structure of the SWS Financing Group;

(xvi) the due payment of all its taxes (save to the extent that any tax payment is being disputed in good faith) and the due filing in all material respects of any tax returns and there being no material claims being asserted against it with respect to taxes which are not being disputed in good faith);

(xvii) under the laws of its jurisdiction of incorporation and tax residence in force on the Initial Issue Date, it not (other than as disclosed) being required to make any deduction or withholding from any payment of interest under the Finance Documents in circumstances where, under current United Kingdom law, no United Kingdom withholding tax would be imposed on the payment;

(xviii) the claims of Secured Creditors secured pursuant to a Security Agreement ranking prior to the claims of its other unsecured and unsubordinated creditors;

(xix) no Security Interest having been created, or allowed to exist, other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness and Permitted Volume Trading Arrangements;

(xx) the Bonds constituting (or constituting upon execution, due authentication and delivery) legal and valid obligations binding on the Issuer and enforceable against it in accordance with its terms and constituting evidence of direct, secured and unconditional obligations of the Issuer;

(xxi) no litigation or other proceedings current, or to its knowledge pending or threatened against it or its assets which, if adversely determined, are reasonably likely to have a Material Adverse Effect;

(xxii) limits on its powers not being exceeded as a result of the borrowing, leasing, granting of security or giving or guarantees contemplated by the Finance Documents;

(xxiii) compliance with environmental laws and having obtained all Environmental Permits necessary for conduct of its business and no Environmental Claim having been commenced;

(xxiv) no loans made by any Obligor being outstanding to other persons immediately following the issue of Bonds on the Initial Issue Date other than pursuant to Finance Documents, under any Permitted Volume Trading Arrangements and the SWS/SWSG Loan Agreement;

(xxv) no Treasury Transactions being outstanding immediately following the issue of Bonds on the Initial Issue Date other than the Initial Hedging Agreements;

(xxvi) all arrangements or contracts with any person being on arm's length basis and, other than in respect of contracts entered into by SWS and under which payments to be made would fall within paragraph (a) of the exclusions in the definition of "Distribution", on terms no less favourable to it than would reasonably be expected to be obtained in a comparable arm's length transaction with a person not being an Associate, except: (i) contracts entered into by SWS and under which payments to be made would fall within paragraph (c) of the exclusion in the definition of Distribution; (ii) as permitted under the Finance Documents; or (iii) as a result of a Permitted Emergency Action; and

(xxvii) on the Initial Issue Date, no member of the SWS Financing Group being liable in any manner in respect of any Financial Indebtedness (including by way of primary obligor, guarantor, surety or any other manner) that is not Class A Debt, Class B Debt or Mezzanine Debt, the providers of which have executed the CTA and the STID, the SWS Preference Shares, the initial holders of which will have executed the

SWS Preference Share Deed, or Permitted Financial Indebtedness falling within the categories listed in paragraph (a), (b), (d) or (e) of the definition of "Permitted Financial Indebtedness".

In addition, on each Issue Date and on each date on which any Financial Guarantee or any other new Authorised Credit Facility is issued or entered into under the Programme, each Obligor will repeat certain of such representations (excluding those representations contained in paragraphs (x), (xxv) and (xxvii) above on each Issue Date and excluding the representation contained in paragraph (xx) on each date on which any Financial Guarantee or any other new Authorised Credit Facility is issued or entered into under the Programme) in relation only to the Bonds or Financial Guarantee then being issued or the new Authorised Credit Facility then being entered into (the "**Initial Date Representations**").

On each Payment Date, on each date of a request for a borrowing, on the first date of each borrowing and on each date for payment of a Restricted Payment, each Obligor shall make certain representations (including those contained in paragraphs (i), (ii), (iv), (v), (vi), (xiii), (ix), (xxi), (xxii) and (xxiii) above) (the "**Repeated Representations**"). Each Obligor shall also make the Repeated Representations on each date on which SWS enters into any new Material Agreement, but only in relation to such new Material Agreement.

Additionally, SWS has made and will make (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) representations including:

(i) (on the date of each Initial Date Representation and each Repeated Representation) to the best of its knowledge, it has the right to use Intellectual Property Rights necessary to conduct its Business;

(ii) (on the date of each Initial Date Representation) to the best of its knowledge (and save as disclosed to the Security Trustee) all parties to Transaction Documents are in compliance with the Transaction Documents;

(iii) (on the date of each Initial Date Representation) assumptions used in respect of financial ratio calculations and projections having been made in good faith, after due and careful consideration and being consistent with Applicable Accounting Principles and Good Industry Practice;

(iv) (on the date of each Initial Date Representation and each Repeated Representation) it is not aware of any Special Administration Order having been made in respect of it; and

(v) (on the date of each Initial Date Representation) the accuracy (in all material respects) of certain written information provided by SWS and the accuracy of this Prospectus.

Additionally, each of SWSH, SWSGH and the Issuer represents that its activities have been limited to the First Aqua Acquisition, the financing and refinancing thereof following the acquisition by SWI of the Issuer in May 2003 the holding of shares in its subsidiaries, implementing the corporate reorganisation of SWI and its subsidiaries on the Initial Issue Date, the declaration and payments of dividends, and its entry into and performance of documents relating thereto and envisaged by the Transaction Documents.

Covenants

The Common Terms Agreement contains certain covenants from each of the Obligors. A summary of the covenants which are (among others) included (subject, in some cases, as to agreed exceptions, *de minimis* amounts and qualifications as to materiality and reservations of law) in the Common Terms Agreement is set out below in "*Information – Covenants*", "*Covenants – General*" and "*Financial Covenants*".

Information – Covenants

(i) So far as permitted by any applicable law or any binding confidentiality obligation, SWS has undertaken to supply to the Security Trustee, each Rating Agency rating the Bonds at that time and, in certain cases, each Financial Guarantor certain information such as:

(a) a copy of all information, which would reasonably be expected to be material to an Authorised Credit Provider to the SWS Financing Group, which it supplies to the Director General;

(b) as soon as reasonably practicable after becoming aware, details of any proposed material changes to the Instrument of Appointment or any proposed changes to the constitutional documents of any member of the SWS Financing Group;

(c) promptly upon becoming aware, details of any actual or potential enquiry, investigation or proceeding commenced by any government, court, regulatory agency or authority, if such enquiry, investigation or proceeding would be reasonably likely to have a Material Adverse Effect;

(d) as soon as reasonably practicable after receipt, any material notice (including an enforcement notice) from any governmental authority or industry regulator (including Ofwat) received by SWS;

(e) copies of all certificates and responses provided by SWS or any member of the SWS Financing Group to any industry regulator (including Ofwat) which would reasonably be expected to be material and adverse and which relates to the creditworthiness of SWS or SWS's ability to perform its duties under the Instrument of Appointment;

(f) copies of all reports and information provided by the operator and/or service provider to it under any Material Agreement which would be materially adverse in relation to the creditworthiness of SWS or to SWS's ability to perform its duties under the Instrument of Appointment;

(g) a semi-annual Investors Report; and

(h) such material information about the business and financial condition of SWS as a Secured Creditor may reasonably and properly request, from time to time, on the request of the Security Trustee (as directed by such Secured Creditor).

(ii) SWS has further agreed to provide information regarding certain changes of control of SWSGH to the Security Trustee, each Financial Guarantor and the Rating Agencies as soon as it becomes aware of any such proposal and to use all reasonable endeavours to procure that the Security Trustee and each Financial Guarantor have been given a reasonable opportunity to express views on the identity and role of any such proposed new Controlling person under any such changes of control.

(iii) SWS has further agreed to provide information in relation to any announcement of K which has or might reasonably have a Material Adverse Effect.

(iv) SWS has further agreed to use all reasonable endeavours to supply any information due to, or requested by, the Director General within the time period provided for supply of such information. If no time period is specified, SWS must provide the required information as soon as reasonably practicable. This is subject to action SWS reasonably believes is consistent with prudent management as part of negotiations with the Director General.

(v) Additionally, each Obligor has undertaken to supply to the Security Trustee within a certain timeframe:

(a) its audited financial statements for each of its financial years and, in the case of SWS, its unaudited financial interim statements, for the first half-year of each of its financial years;

(b) copies of all material documents despatched by it to its shareholders (to the extent that such documents would be sent to its shareholders if such Obligor were a listed company) or creditors generally;

(c) as soon as reasonably practicable after becoming aware or available, details of:

(i) any litigation or other proceedings (which alone or in aggregate could reasonably be expected to give rise to a claim against SWS of £5,000,000 (indexed)), which are current, threatened or pending and would be reasonably likely, if adversely determined, to have a Material Adverse Effect;

(ii) the periodic information relating to it (such as SWS's annual charges scheme, a summary of SWS's strategic business plan at each Periodic Review, SWS's current Procurement Plan (if any), SWS's annual drinking water quality report, SWS's annual environmental report and SWS's annual conservation and access report);

(iii) promptly upon coming aware of them, details concerning any Obligor placed on credit watch with negative implications;

(iv) any event which could reasonably be expected to give rise to an insurance claim in excess of £4,000,000 (indexed from the Initial Issue Date);

(v) any Material Entity Event (see "*Material Entity Events*" below) and/or Emergency which would be reasonably likely to have a Material Adverse Effect;

(vi) any non-compliance with any law or regulation which would be reasonably likely to have a Material Adverse Effect;

(vii) any other event which would be reasonably likely to have a Material Adverse Effect;

(d) such material information as is reasonably and properly requested by any Secured Creditor; and

(e) notification of any Default or Potential Trigger Event relating to it promptly upon becoming aware of its occurrence (and the steps, if any, being taken to remedy it).

(vi) Additionally, each of SWS and the Issuer has undertaken, among other things:

(a) to supply a compliance certificate signed by two authorised signatories of the Issuer and two directors of SWS; such compliance certificate to be accompanied by a statement as to what the historical and forward-looking financial ratios which are required to be calculated under the Common Terms Agreement are and a copy of the computations made in respect of such historical and forward-looking financial ratios;

(b) to permit the Security Trustee to investigate the calculations contained in any compliance certificate and to call for other substantiating evidence if it certifies to SWS or the Issuer that it has reason to believe that the historical or forward-looking ratios (or confirmation of compliance with the financial ratios) as set out in the statement are incorrect or misleading or in the event that there is a deterioration in the historical ratios; and

(c) to deliver to the Security Trustee promptly after any reasonable request made by the Security Trustee a certificate signed on its behalf by two of its authorised signatories: (a) certifying that no Default or Potential Trigger Event is outstanding of which it is aware, having made all reasonable enquiries; or (b) if a Default or Potential Trigger Event is outstanding, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.

(vii) In addition, each Obligor in respect of information delivered electronically:

(a) may deliver any information under the Common Terms Agreement to a Secured Creditor by posting it on an electronic website, provided the Obligor and the Security Trustee have designated a website and the Obligor has notified the Security Trustee and each relevant Secured Creditor of the address and password for such website; and

(b) must notify the Security Trustee if: (i) the website cannot be accessed or the website or any information on it is infected for a period of five consecutive days, in which case the Obligor must supply the Security Trustee with all information required under the Common Terms Agreement in paper form with copies as requested by any Finance Party; or (ii) if the password is changed.

Covenants – General

(i) Each Obligor has undertaken, among other things:

(a) to do all such things as are necessary to maintain its corporate status where failure to do so would be reasonably likely to have a Material Adverse Effect or otherwise adversely affect the Security Interests of the Secured Creditors;

(b) to comply with its cash management obligations (if any) set out in the Common Terms Agreement;

(c) to ensure that the secured claims of Secured Creditors against it under the Finance Documents will rank (subject to certain reservations as to matters of law) prior to the claims of all its other unsecured and unsubordinated creditors save for those whose claims are preferred solely by law;

(d) to operate and maintain, or ensure the operation and maintenance of, its business in a safe, efficient and business-like manner and in accordance with its memorandum and articles of association or other constitutional documents and the Finance Documents and, in the case of SWS, the Instrument of Appointment, the WIA and Good Industry Practice (taking its Business as a whole);

(e) to comply with the terms of the Transaction Documents to which it is a party;

(f) to maintain and take all reasonable steps to enforce its rights and exercise its discretions under the Transaction Documents in accordance with Good Industry Practice;

(g) to ensure that, save as otherwise agreed by the Security Trustee and each Financial Guarantor and save for any Permitted Acquisitions or Permitted Disposals, the corporate ownership structure of the SWS Financing Group (other than the ownership or Control of SWSGH and the ownership of the SWS Preference Shares) remains as at the date of the Common Terms Agreement;

(h) so far as permitted by applicable law and regulatory requirements, to execute all such further documents and do all such further things as the Security Trustee (acting reasonably) may consider necessary to give effect to the Finance Documents;

(i) (i) to take all such action as the Security Trustee may reasonably require for the purpose of perfecting, protecting and preserving the rights of the Security Trustee under the Security Documents and the Security Interests under the Security Documents; and (ii) to take all actions as the Security Trustee may require, following the making of any acceleration, cancellation or demand under the Issuer/SWS Loan Agreements or the termination of, or prepayment of the rentals relative to, the leasing of the Equipment, in each case, after the occurrence of a Default for facilitating the exercise of the rights of the Security Trustee under the Security Documents and/or the realisation of any Security Interests under the Security Documents; and (iii) to use all reasonable endeavours to receive acknowledgements of assignment from such counterparties as the Security Trustee may nominate;

(j) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of SWS, Permitted Volume Trading Arrangements;

(k) not to enter into any amalgamation, demerger, merger, consolidation or reconstruction other than as agreed by the Security Trustee and each Financial Guarantor (other than, in the case of SWS, a Permitted Disposal or Permitted Acquisition);

(l) not to acquire or invest, other than Permitted Acquisitions and Authorised Investments;

(m) not to 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: (A) any credit or indemnity provided under any Finance Document; (B) any loan made under the Issuer/SWS Loan Agreements; (C) any loan provided to SWS subordinated to the Authorised Credit Facilities on terms acceptable to the Security Trustee; (D) any guarantee in the Finance Documents; (E) the SWS/SWSG Loan; (F) single loans by SWS to employees of less than £250,000 (indexed from the Initial Issue Date) or loans by SWS to employees in aggregate less than £750,000 (indexed from the Initial Issue Date); (G) in the case of SWS, Permitted Volume Trading Arrangements; (H) any loan made as a Permitted Post Closing Event; (I) other loans by SWS in aggregate of less than £500,000 (indexed from the Initial Issue Date) not falling in (A) to (H) above; provided (other than in the case of (B) and except where a Default is continuing (F)) 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;

(n) not to change its memorandum or articles of association or other constitutional documents without the prior written consent of the Security Trustee (provided that SWS may change its memorandum or articles of association or other constitutional documents without the Security Trustee's consent where such change is not in relation to the SWS Preference Shares and would not be reasonably likely to have a Material Adverse Effect or otherwise prejudice the Security Interests created pursuant to the Security Documents);

(o) not to enter into any Treasury Transaction other than Hedging Agreements;

(p) except for a Permitted Tax Loss Transaction, not to enter, without the consent of the Security Trustee and each Financial Guarantor, into any arrangements with any other company or person (other than a taxation authority in respect of the taxation liabilities of such Obligor or any other Obligor or pursuant to the Finance Documents) relating to Tax;

(q) not to compromise or settle any claim, litigation or arbitration without prior notification to the Security Trustee if any such compromise or settlement would be reasonably likely to have a Material Adverse Effect;

(r) (A) to promptly obtain, maintain and comply with the terms of all applicable laws, regulations and orders and obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including the Instrument of Appointment) necessary for the conduct of its business, for entry into and performance of the Finance Documents, and for the leasing of the Equipment, as a whole in accordance with Good Industry Practice; and (B) to do nothing which would lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals, in each case where such failure would be reasonably likely to have a Material Adverse Effect;

(s) to maintain separate bank accounts;

(t) to pay all Taxes for which an Obligor is primarily liable and other outgoings prior to penalties being incurred unless payment of those Taxes is being contested in good faith by appropriate means which permit the deferral of payment and/or an adequate reserve has been set aside for payment of those Taxes;

(u) not to create or allow to exist any Security Interest on the Equipment or any of its present or future revenues or assets other than Permitted Security Interests, nor create or enter into any restriction or prohibition on the creation or granting of, any Security Interest on any of its assets except as permitted by the Finance Documents, nor create or permit to exist any further Security Interest over all or any of its present and future revenues, equipment or assets as security for any Permitted Financial Indebtedness other than in favour of the Security Trustee to be held upon the terms of the STID;

(v) not to (A) (i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or reacquired or acquired by any Associate other than (in the case of the Issuer or SWS) pursuant to a Finance Lease; or (ii) sell, transfer or otherwise dispose of any of its receivables (other than Permitted Book Debt Disposals); or (iii) purchase any asset on terms providing for a retention of title by the vendor or on conditional sale terms or on terms having a like substantive effect to any of the foregoing except for assets acquired in the ordinary course of its business carried on in the normal course, in each case (in respect of SWS only), in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset; nor (B) enter into any such transaction in (A) above in circumstances where the transaction is not entered into primarily as a method of raising finance to the extent that the consideration in respect of such sales, leases, transfers or disposals is not received in cash payable in full at the time and exceeds an amount equal to 0.13 per cent. of RCV in aggregate at any time;

(w) not to dispose of all or any part of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal or pursuant to the creation of a Permitted Security Interest;

(x) not to change its tax residence from the United Kingdom;

(y) not to: (A) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so; (B) issue any shares which by their terms are redeemable or convertible or exchangeable for Financial Indebtedness; or (C) after the Initial Issue Date, issue any share capital to any person, other than where any such action or transaction: (i) is in respect of the SWS Preference Shares (subject, in certain circumstances, to the Restricted Payment Condition); (ii) is in furtherance of a Restricted Payment and the amount of the Restricted Payment is permitted to be paid pursuant to the Finance Documents; (iii) is expressly permitted under the Finance Documents; (iv) relates to the issuance of further share capital to an existing shareholder of an Obligor (subject to compliance with the Security Agreement); or (v) has received the prior written consent of the Security Trustee and each Financial Guarantor;

(z) other than as a result of Permitted Emergency Action (in which case, SWS shall use reasonable endeavours to ensure that all contracts entered into will be on an arm’s length basis, although SWS will not be required to obtain alternative competitive quotes) or in respect of contracts entered into by SWS under paragraph (c) of the definition of “Distributions”, not to enter into any arrangement or contract with any person otherwise than on an arm’s length basis save as has been disclosed or unless expressly permitted under the Finance Documents; and

(aa) other than SWS except with the consent of the Security Trustee and each Financial Guarantor, no Obligor shall participate in a scheme in respect of retirement benefit arrangements with companies other than the other Obligors. SWS may participate in subject to paragraphs (iv) and (v) below, the Permitted Existing Pension Schemes.

(ii) Additionally, each of SWSH and SWSGH has undertaken:

(a) not to: (A) carry on or transact any business or other activity other than (i) ownership of the shares in members of the SWS Financing Group held by it on the Initial Issue Date; (ii) the giving of guarantees in accordance with the Finance Documents; and (iii) performance of obligations required under the Finance Documents; (B) own any asset or incur any liabilities except for the purposes of carrying on that business in accordance with the Finance Documents; (C) suspend, abandon or cease to carry on its business; (D) declare, make or pay Restricted Payments otherwise than as permitted under the Finance Documents; or (E) take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Security Trustee; and

(b) not to make any Restricted Payments otherwise than out of monies received by it, directly or indirectly, from SWS which have been properly paid by SWS as a Distribution or as set out under the Common Terms Agreement.

(iii) Save as otherwise approved by the Security Trustee, SWS has further undertaken to maintain on its board of directors at least three non-executive directors who are not employees or directors of any Associate (subject to temporary vacancies arising out of exceptional circumstances).

(iv) Additionally, SWS has undertaken among other things:

(a) to ensure that the nature of its business is limited to the Business;

(b) to conduct its Appointed Business in the name of SWS only and to ensure that separation from the Group or Associates is maintained at all times by holding SWS out as a separate entity, correcting any misunderstanding as to identity and using stationery, invoices and cheques separate from any other person or entity;

(c) not to permit, agree to or recommend any suspension or the abandonment of all or a material part of the operation of its Appointed Business unless such suspension or abandonment is in accordance with its Instrument of Appointment;

(d) if it exceeds the Permitted Non-Appointed Business Limits, to dispose of or reduce all or part of its Permitted Non-Appointed Business within six months so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date;

(e) to comply in all material respects with the Instrument of Appointment save to the extent that Ofwat has waived or approved such non-compliance to the reasonable satisfaction of the Security Trustee;

(f) not to agree to any amendment or variation of the Instrument of Appointment which would reasonably be expected to have a Material Adverse Effect;

(g) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it, where failure to do so would be reasonably likely to have a Material Adverse Effect;

(h) as soon as reasonably practicable upon becoming aware of the same, notify the Security Trustee of: (A) any Environmental Claim that is current or, to the best of its knowledge and belief, is threatened; or (B) any facts or circumstances which will or are reasonably likely to result in an Environmental Claim being commenced or threatened against it, which, in either case if substantiated, is reasonably likely either to have a Material Adverse Effect or result in any material liability for a Finance Party;

(i) to effect and maintain those insurances in connection with its Business as are required under the Common Terms Agreement;

(j) to take all reasonable action to safeguard and maintain such present and future rights in accordance with Intellectual Property Rights necessary for its Business including observing all covenants and stipulations relating thereto and obtaining all necessary registrations;

(k) (A) other than in respect of contracts entered into by SWS and under which payments to be made would fall within paragraph (a) or (c) of the exclusions in the definition of Distribution, to comply with the Outsourcing Policy, which became effective on and from the Initial Issue Date and applies to each Outsourcing Agreement and Capex Contract entered into by SWS (other than any Excluded Agreements) on and from the Initial Issue Date; (B) subject to (A), to procure that any Outsourcing Agreement or Capex Contract entered into on and from the Initial Issue Date complies with the Public Procurement Rules (if such Outsourcing Agreement or Capex Contract would be an agreement to which the Public Procurement Rules would apply) and the Outsourcing Policy; (C) where an Emergency is continuing, to use its best endeavours to rectify such Emergency as soon as is reasonably practicable (for the avoidance of doubt, any Permitted Emergency Action will not constitute a breach of the Outsourcing Policy); (D) each time an Excluded Agreement expires in accordance with its terms or is terminated early, any agreement entered into by SWS in place of such Excluded Agreement shall comply with the Outsourcing Policy (to the extent required by the terms of the Outsourcing Policy); (E) not to amend, modify or alter any material provision or agree to renew or extend (or agree to exercise any option to renew or extend) any Excluded Agreement without the consent of the Security Trustee and each Financial Guarantor; and (F) to at all times use Good Industry Practice in exercising its rights and performing its obligations under any Excluded Agreement. In March 2005 SWS obtained a waiver from the Majority Creditors in relation to certain aspects of the Single Entity Contract PR04 described in Chapter 5 "*Description of the SWS Financing Group – Capital Investment Programme*" that do not comply with the Outsourcing Policy – see "*Events of Default*" below;

(l) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment and under the Transaction Documents and, in respect of performance obligations which are either passed on to a Contractor or outsourced, it has retained sufficient control to discharge its obligations under the Instrument of Appointment and under the Transaction Documents;

(m) following receipt of notice of termination of the Instrument of Appointment, SWS must use its reasonable endeavours to ensure that subject to its obligations under the WIA: (A) a Transfer Scheme is agreed between SWS, the transferee and the Director General by a date no less than two years prior to the expiration of such notice; and (B) any such Transfer Scheme will not be prejudicial to the interests of the Secured Creditors;

(n) to use all reasonable endeavours to ensure that the Security Trustee is joined in the consultation process with the Director General if SWS becomes subject to any Transfer Scheme;

(o) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee and each Financial Guarantor;

(p) other than in respect of the SWS Preference Shares, to ensure that there are no agreements in force or corporate resolutions passed which call for the present or further issue or allotment of, or grant to any person other than SWSH, the right (whether conditional or otherwise) to call for the issue or allotment of any share (or equivalent) loan note or loan capital of SWS (including an option or right of pre-emption or conversion);

(q) to make an SWS/SWSG Debt Service Distribution quarterly each year and then only provided that certain conditions are met, including each of the following:

(i) no Event of Default is subsisting or will result from the payment;

(ii) no event of default has occurred and is continuing under the SWS/SWSG Loan Agreement and SWSG is not in default of its obligations under the SW Tax Deed of Covenant;

(iii) all dividends declared by SWS, SWSH and SWSGH are validly declared;

(iv) all payments in respect of a Permitted Tax Loss Transaction comply fully with the SW Tax Deed of Covenant and the CTA; and

(v) such SWS/SWSG Debt Service Distribution is made against irrevocable payment instructions directing the Account Bank to remit the proceeds thereof on receipt by SWSG to the relevant account of SWS for same day value;

(r) to comply with the obligations to provide information under any Surveillance Letter or any Authorised Credit Facility;

(s) to apply to the Director General for an IDOK when permitted under the Instrument of Appointment (or use any other means available to apply for an IDOK), in all circumstances which are appropriate in accordance with Good Industry Practice provided that any such application is consistent with prudent management;

(t) to levy charges to customers which, together with other available amounts, are as far as possible sufficient, within the constraints of the current price control framework, to enable SWS to meet its operational, investment and financial obligations on a timely basis under the Instrument of Appointment and its obligations in respect of Financial Indebtedness;

(u) not to propose any resolution for, or agree to any material amendments to, variation, modification, waiver, suspension, revocation, termination of any Material Agreement save in accordance with the Outsourcing Policy without the prior written consent of the Security Trustee; and

(v) to: (i) procure that the nature of the business of its Pension Companies is limited to the business and functions of a trustee of an occupational pension scheme (as defined in section 1 of the Pension Schemes Act 1993) in respect of SWS Pension Schemes only; and (ii) procure that the Pension Companies do not incur any Financial Indebtedness or permit security to be taken over their assets or shares other than where such Security is taken in accordance with the Security Agreement.

(w) Additionally, SWS and the Issuer have undertaken among other things:

(x) to maintain a rating of the Class A Debt and Class B Debt and a shadow rating of Class A Wrapped Debt with any two of the Rating Agencies;

(y) only to:

(A) pay Customer Rebates at a time when no Event of Default is subsisting;

(B) other than in the case of Permitted Post Closing Events, any SWS/SWSG Debt Service Distribution, any Subordinated Debt Replacement Event and any SWS Preference Share

Conversion Event, pay any Distribution or make any payment under the Subordinated Debt or SWS Preference Shares if:

(i) in the case of Distributions or dividends under the SWS Preference Shares, the payment is made after a duly constituted board meeting has been held approving the declaration of such Distribution or dividend;

(ii) the amount of the Distribution, payment under the Subordinated Debt and/or payment under the SWS Preference Shares that may be paid is limited to an amount equal to the Proposed Payment Amount (as defined below);

(iii) on the date of such payment:

(a) no drawings are outstanding under the Liquidity Facilities, other than Standby Drawings;

(b) save in the case of the first scheduled payment under the Subordinated Debt and the SWS Preference Shares, the Senior RAR, as certified by the Issuer and SWS in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.850:1 for each Test Period (after deducting an amount equal to the aggregate of any proposed Customer Rebates, proposed Distribution, proposed payment on the Subordinated Debt and proposed payment on the SWS Preference Shares (the "**Proposed Payment Amount**") from available cash); and

(c) no Default subsists or might reasonably be expected to result from the payment and the Repeated Representations are, and will following such payment remain, correct, provided that if such Default arises as a result of a notice to terminate the Instrument of Appointment having been served then such Default shall be deemed to be cured if an independent financial adviser shall have certified to the Security Trustee that a Transfer Scheme as defined in Schedule 2 to the WIA or other satisfactory security has been established that will not be materially prejudicial to the interests of the Class A Debt Providers or the Class B Debt Providers (as the case may be); and

(iv) in the case of a payment under the SWS Preference Shares or any Subordinated Debt into which the SWS Preference Shares have converted, at the time of such payment there is no amount which has fallen due under the Subordinated Debt which has not been paid or would, but for any deferral of unpaid amounts, have fallen due,

and SWS shall be treated as having made to each Secured Creditor in respect of Class A Debt and Class B Debt a representation on the date of any Restricted Payment that each of the conditions necessary to be satisfied in relation to such Restricted Payment has been satisfied.

In addition to the restrictions on payment of Restricted Payments described above, a Restricted Payment will not be permitted if certain changes of control of SWSGH result in a downgrade of the shadow rating of the Class A Wrapped Debt to or below BBB+ (S&P), Baa1 (Moody's) and BBB+ (Fitch) and such ratings have not been restored;

(z) to agree to cooperate with the Rating Agencies in connection with any reasonable request for information in respect of the maintenance of a shadow rating or rating and with any review of its business which may be undertaken by one or more of the Rating Agencies after the date of the Common Terms Agreement;

(aa) to ensure that there are installed and maintained accounting, management information, financial modelling and cost control systems which are of such a standard which can produce the information required within the time set out in the Finance Documents and procure that there are maintained books of account and other records adequate to reflect fairly and accurately its financial condition, the results of its operations and to provide the reports required to be delivered pursuant to the Finance Documents;

(bb) to authorise the Auditors to communicate directly with the Security Trustee at such time as such parties may reasonably require (and while any Default is outstanding at any time) regarding its accounts and operations and furnish to the Security Trustee a copy of such authorisation, subject to the Auditors' agreement to communicate at such time and upon agreed conditions;

(cc) to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;

(dd) to only replace the Auditors without the prior written approval of the Security Trustee if the replacement Auditors are a firm of independent public accountants of international standing;

(ee) not to change its financial year end without the prior written consent of the Security Trustee, such consent not to be refused if Ofwat requires the relevant financial year to be changed, in which case SWS will change the financial covenant calculations in such manner as the Security Trustee deems necessary to enable such calculations to continue to be calculated from the relevant financial statements of SWS; and

(ff) to ensure that it will not enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into of such Authorised Credit Facility: (a) its aggregate nominal outstanding Financial Indebtedness which has an expected maturity falling within any period of 24 consecutive months shall not exceed 20 per cent. of SWS's RCV for the time being; and (b) the aggregate nominal outstanding Financial Indebtedness which has an expected maturity falling within the period from one Periodic Review to the next Periodic Review shall not exceed 40 per cent. of SWS's RCV for the time being (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than five years).

(v) Additionally, the Issuer has undertaken, among other things:

(a) not to: (A) carry on any business other than the raising of funds to provide debt financing to SWS for the purposes of its Business in accordance with the Finance Documents or any Hedging Agreement in accordance with the Hedging Policy; (B) own any assets or incur any liabilities except as required or permitted pursuant to the Finance Documents; (C) suspend, abandon or cease to carry on its business; or (D) take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Security Trustee;

(b) to enter into the hedging arrangements contemplated in the Hedging Policy, in accordance with the terms of the Hedging Policy;

(c) prior to any refinancing of any Class B Debt with any Class A Debt, to obtain confirmation from all Rating Agencies then rating the Bonds that the Rating Requirement is met and will not cease to be met as a result of such refinancing;

(d) to use all reasonable endeavours to procure the admission of all listed Bonds for trading on the Market or the PSM, or such other stock exchange approved by the Dealers and the Bond Trustee, and to maintain such admission until none of the relevant listed Bonds is outstanding;

(e) upon receiving a written request from the Bond Trustee, to deliver to the Bond Trustee a certificate of the Issuer setting out, *inter alia*, details of the aggregate principal amount outstanding under the outstanding Bonds purchased by the Issuer and as are held by any person for the benefit of any member of the SWS Financing Group, any Financial Guarantor or, so far as the Issuer is aware, any of their respective Affiliates, holding companies and subsidiaries;

(f) to send or procure to be sent (not less than three days prior to the date of publication) to the Bond Trustee for the Bond Trustee's approval, one copy of each notice to be given to the Bondholders in accordance with the Conditions and not to publish such notice without such approval and, upon publication, send to the Bond Trustee two copies of such notice (such approval, unless so expressed, not to constitute approval for the purpose of section 21 of the FSMA of such notice as an investment advertisement (as therein defined));

(g) to procure that the Principal Paying Agent notifies the Bond Trustee forthwith if it does not, on or before the due date for payment in respect of the Bonds, receive unconditionally the full amount in the correct currency of the monies payable on such due date;

(h) to forthwith give notice to the Bondholders of payments made after their due date to the Principal Paying Agent or the Bond Trustee;

(i) not less than the number of days specified in the relevant Conditions prior to the redemption or repayment date in respect of any Bond, to give to the Bond Trustee notice in writing of the amount of such redemption or repayment pursuant to the Conditions;

(j) prior to giving notice to the Bondholders that it intends to redeem the Bonds pursuant to 8(b) (*Optional Redemption*) or Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*), to provide such information to the Bond Trustee and the Financial Guarantors as the Bond Trustee and the Financial Guarantors require in order to satisfy themselves of the matters referred to in those Conditions;

(k) to promptly give notice to the Bond Trustee and to the Security Trustee: (A) if it is required by law to effect a deduction or withholding of Tax in respect of any payment due in respect of any Bonds listed on a recognised stock exchange (within the meaning of section 841 of the Income and Corporation Taxes Act 1988); or (B) if a Hedge Counterparty is required to make a deduction or withholding of Tax in respect of any payment due under the relevant Hedging Agreement; or (C) if it would not be entitled to relief for Tax purposes, in any jurisdiction in which it carries on business or is resident for tax purposes, for any material amount which it is obliged to pay under the Finance Documents and which is or has been assumed in the SWS Business Financial Model to be available for relief for Tax purposes, and in each case, take such action as may be required by the Bond Trustee and Security Trustee in respect thereof;

(l) while any of the Bonds remain outstanding, to give notice, or procure that notice is given, to each of the Rating Agencies of (A) any proposed amendment to the Finance Documents other than amendments that the Bond Trustee considers to be of a formal, minor or technical nature or made to correct a manifest error or necessary or desirable for clarification; (B) any request for consent from the Security Trustee and each Financial Guarantor under any Finance Document (other than the STID) in relation to any matter or act which would be automatically treated as permitted by such Finance Document upon the giving of consent by the Security Trustee and each Financial

Guarantor; (C) the Bonds of any Sub-Class being repaid in full; (D) the termination of the appointment of the Cash Manager; (E) the appointment of a replacement Bond Trustee or Security Trustee or the appointment of any new or replacement Agents; (F) any Default; (G) the taking of Enforcement Action; (H) the occurrence of any SWS Change of Control or certain changes of control of SWSGH; or (I) the acquisition of any Permitted Subsidiary pursuant to a Permitted Acquisition, in each case, promptly after the Issuer or SWS becoming aware of the same;

(m) to observe and comply with its obligations, and use all reasonable endeavours to procure that the Agents observe and comply with all their obligations under the Agency Agreement and, if any Registered Bonds are outstanding, to procure that the Registrar maintains the Register and to notify the Bond Trustee immediately if it becomes aware of any material breach or failure by an Agent in relation to the Bonds;

(n) to give not less than 14 days' prior notice to the Bondholders of any future appointment or any resignation or removal of any Agent or of any change by any Agent of its specified office;

(o) if, before an Interest Payment Date for any Bond, it becomes subject generally to the taxing jurisdiction of any territory or any political sub-division thereof or any authority therein or thereof having power to tax other than or in addition to the United Kingdom, to notify (immediately upon becoming aware thereof) the Bond Trustee of such event and (unless the Bond Trustee otherwise agrees) to enter into a deed supplemental to the Bond Trust Deed, so that the relevant Condition shall make reference to that other or additional territory; and

(p) to notify the Bond Trustee of any amendment to the Dealership Agreement.

Financial Covenants

(i) SWS has undertaken, among other things:

(a) to deliver, with each Compliance Certificate and each Investors Report, a statement confirming that it has calculated each of the following ratios as at the Calculation Date immediately prior to the date of delivery of that Compliance Certificate, specifying the results of such calculations and providing a copy of the computations made in respect of the calculation of such ratios:

(A) the Class A ICR for each Test Period;

(B) the Senior Adjusted ICR for each Test Period;

(C) the Class A Adjusted ICR for each Test Period;

(D) the Senior Average Adjusted ICR;

(E) the Class A Average Adjusted ICR;

(F) the Senior RAR as at such Calculation Date and, in the case of forward-looking ratios, the 31 March falling in each Test Period;

(G) the Class A RAR as at such Calculation Date and, in the case of forward-looking ratios, the 31 March falling in each Test Period;

(H) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the 12 month period ending on such Calculation Date;

(I) a Conformed Senior Adjusted ICR for each Test Period;

(J) a Conformed Class A Adjusted ICR for each Test Period;

(K) a Conformed Senior Average Adjusted ICR; and

(L) a Conformed Class A Average Adjusted ICR,

and to calculate: (x) the historical ratios using the audited financial statements (or unaudited financial statements if audited financial statements are not available on such date) delivered with such Compliance Certificate; and (y) the forward-looking ratios using the SWS Business Financial Model which shall be prepared on a consistent basis and using assumptions from the most recently available relevant information and the most recently delivered financial statements; and

(b) at each Periodic Review and on making each IDOK application, to apply to the Director General for a price determination which in the reasonable opinion of the SWS directors would allow, at a minimum, a credit rating in the A Category to be achieved and maintained for the Class A Unwrapped Debt and a shadow rating in the A Category to be achieved and maintained for the Class A Wrapped Debt, in each case from at least two of the Rating Agencies.

(ii) The Issuer has further undertaken to maintain:

(a) a DSR Liquidity Facility available for drawing which (when aggregated with all amounts (including the value of any Authorised Investments) standing to the credit of the Debt Service Reserve Account) is not less than the amount of interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) payable on its Class A Debt and Class B Debt for the next succeeding 12-month period (after taking into account the impact on interest rates of such Class A Debt and Class B Debt of any Hedging Agreements then in place); and

(b) an O&M Reserve and/or O&M Reserve Facility available for drawing which together (including the value of any Authorised Investments funded from the balance on any O&M Reserve Account) amount to not less than 10 per cent. of Projected Operating Expenditure and Capital Maintenance Expenditure for the next succeeding 12-month period as forecast in the SWS Business Financial Model.

Trigger Events

The Common Terms Agreement also sets out certain Trigger Events. The specific Trigger Events and the consequences which flow from the occurrence of those events are set out below.

The occurrence of any of the following events will be a Trigger Event:

(i) Financial Ratios

On any date when any of the following ratios are calculated in accordance with the Common Terms Agreement to breach the relevant level specified below (each a "**Trigger Event Ratio Level**") as at the most recently occurring Calculation Date:

(a) the Senior RAR as at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in any Test Period is or is estimated to be more than 0.900:1;

(b) the Class A RAR as at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in any Test Period is or is estimated to be more than 0.750:1;

(c) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.10:1;

(d) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.30:1;

(e) the Senior Average Adjusted ICR is or is estimated to be less than 1.20:1;

(f) the Class A Average Adjusted ICR is or is estimated to be less than 1.40:1;

(g) the Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.10:1;

(h) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.30:1;

(i) the Conformed Senior Average Adjusted ICR is or is estimated to be less than 1.20:1; or

(j) the Conformed Class A Average Adjusted ICR is or is estimated to be less than 1.40:1.

(ii) Credit Rating Downgrade

(a) The long-term shadow credit rating of any Class A Wrapped Debt given by any two of the Rating Agencies falls to BBB (S&P), Baa2 (Moody's) or BBB (Fitch) or below;

(b) the long-term credit rating of any Class A Unwrapped Debt by any two of the Rating Agencies falls to BBB (S&P), Baa2 (Moody's) or BBB (Fitch) or below;

(c) the long-term shadow credit rating of the Class B Wrapped Debt by any two of the Rating Agencies falls below Investment Grade; or

(d) the long-term credit rating of the Class B Unwrapped Debt by any two of the Rating Agencies falls below Investment Grade.

Each credit rating referred to above is the "**Trigger Credit Rating**" for the relevant Class of Bonds.

(iii) Debt Service Payment Account Shortfall

The failure by SWS to pay the Monthly Payment Amount within five Business Days following the date on which such payment was scheduled to be made.

(iv) Material Deviation in Projections

On any Calculation Date, the estimated actual Capital Expenditure over any five year period between Periodic Reviews exceeds the Capital Expenditure for that period assumed by the Director General in the last Periodic Review (adjusted to take account of any subsequent IDOK and Out-turn Inflation, including variances in real construction prices from assumed construction prices, and deducting capital expenditure incurred or to be incurred in respect of items for which SWS is entitled to make an application for an IDOK) in respect of SWS by 10 per cent. or more.

(v) Liquidity for Capital Expenditure and Working Capital

If, as at any Calculation Date, the aggregate of: (i) SWS's operating cash flows including monies standing to the credit of the Operating Accounts available or forecast to be available to meet Capital Expenditure and working capital requirements for the next Test Period; (ii) Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12-month period; and (iii) all amounts standing to the credit of the Capex Reserve Account is less than the aggregate of SWS's: (a) forecast Capital Expenditure projected for the next 12-month period; (b) forecast working capital requirements projected for the next 12-month period; (c) the maximum total amount of interest in respect of Class A Debt and Class B Debt which is or is projected to fall due and payable during the next succeeding 12 month period; (d) all amounts which are or are projected to fall due and payable during the next succeeding 12-month period in respect of Financial Indebtedness which falls within paragraph (e) of the definition of "Permitted Financial Indebtedness"; and (e) the amount the Issuer or SWS as applicable estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer or SWS to a Hedge Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(vi) Drawdown on DSR Liquidity Facilities and O&M Reserve Facility

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities and all amounts standing to the credit of the Debt Service Reserve Account is less than the Required Balance (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

The Issuer draws down under an O&M Reserve Facility or either the Issuer or SWS withdraws funds from either O&M Reserve Account, in either case to pay SWS's operating or maintenance expenditure (excluding any drawing or repayment of any Standby Drawing in relation to the Issuer's O&M Reserve Facility).

(vii) Enforcement Order

An Enforcement Order (as defined under the WIA) is issued under Part II, Chapter 11 of the WIA against SWS which would have a Material Adverse Effect if not complied with.

(viii) Circumstances Leading to a Special Administration Order

Any indication arising from notices and/or correspondence issued by, or during correspondence with, the Director General or any other circumstance of which SWS is aware that would reasonably be expected to lead to an application by the Director General or the Secretary of State for a Special Administration Order to be made in respect of SWS.

(ix) Termination of Instrument of Appointment

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(x) Event of Default

An Event of Default is continuing.

(xi) Material Entity Event.

A Material Entity Event occurs in relation to a Material Agreement or a Contractor and/or SWS under a Material Agreement and which continues unremedied for 60 days (other than: (i) a Material Entity Event in relation to a Contractor's failure to pay (see paragraph (a) of "*Material Entity Events*" below) which continues unremedied for 45 days; or (ii) a Material Entity Event in relation to a misrepresentation or breach of obligation which is capable of remedy (see paragraphs (b) and (c) of "*Material Entity Events*" below) which continues unremedied for 30 days) from the date from which SWS could be reasonably expected to become aware of such Material Entity Event unless the relevant Contractor has been replaced in accordance with the Outsourcing Policy or SWS has terminated the appointment of the relevant Contractor and assumed the obligations of the Contractor under the relevant Material Agreement.

(xii) Referral

A referral is made under sub-paragraph 14.3 of Condition B in Schedule 2 (*Shipwreck Clause*) to the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any adverse event.

(xiii) Audit Qualification

The Auditors qualify their report on any audited Statutory Accounts of any member of the SWS Financing Group in a manner which causes the Security Trustee to believe that the financial ratios calculated in accordance with the Common Terms Agreement may not reflect the true position of SWS.

(xiv) Adverse Governmental Legislation

The commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) of legislation relating to or impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation could (if enacted) reasonably be expected to lead to a breach of the financial ratios referred to in "*Financial Ratios*" above or cause a material deviation as set out in "*Material Deviations in Projections*" above, in each case taking into account any actions available to SWS to mitigate the same.

(xv) Modification or Replacement of Instrument of Appointment

If within three months of an announcement setting out clear proposals by Ofwat for the modifications or replacement of the Instrument of Appointment which, if implemented, could reasonably be expected to have a Material Adverse Effect and a timetable for the implementation of such proposals, SWS has not obtained confirmation from Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(xvi) Conduct of Business

The Permitted Non-Appointed Business Limits are breached.

(xvii) Breach of Outsourcing Policy

SWS fails duly to perform or comply with its material obligations as required under the Outsourcing Policy (other than as a result of Permitted Emergency Action) and fails to remedy such breach within 90 days of SWS becoming aware of such breach. (In March 2005 SWS obtained a waiver from the Majority Creditors in relation to certain aspects of the Single Entity Contract PR04 described in Chapter 5 "*Description of the SWS Financing Group – Capital Investment Programme*" that do not comply with the Outsourcing Policy.)

(xviii) Adverse Final Determination of K

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect.

Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived by the Security Trustee, remedied in accordance with Trigger Event Remedies (see "*Trigger Event Remedies*" below) or otherwise remedied to the satisfaction of the Security Trustee, the following consequences ("**Trigger Event Consequences**") will apply:

(i) No Restricted Payments

No Obligor may make Restricted Payments and, in respect of Customer Rebates, if these have not yet been implemented, SWS must stop their implementation and must not declare any Customer Rebates.

(ii) Further Information and Remedial Plan

(a) SWS must provide such information as to the relevant Trigger Event (including its causes and effects) as may be requested by the Security Trustee.

(b) SWS must discuss with the Security Trustee its plans for appropriate remedial action and the timetable for implementation of such action. SWS and the Security Trustee may agree a Remedial Plan (with the agreement of the Security Trustee not to be unreasonably withheld or delayed) and any Remedial Plan must then be implemented by SWS.

(iii) Independent Review

(a) The Security Trustee may (acting on the instructions of the Majority Creditors) commission an Independent Review to be undertaken on the timetable stipulated by the Security Trustee. The Independent Review will be conducted by technical advisers to the Security Trustee appointed from time to time or such other person as the Security Trustee may decide.

(b) The Independent Review will examine the causes of the relevant Trigger Event and recommend appropriate corrective measures.

(c) Each of the Issuer and SWS must cooperate with the person appointed to prepare the Independent Review including providing access to its books and records and personnel and facilities as may be required for those purposes.

(iv) Consultation with Ofwat

The Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat at any time.

(v) Appointment of Additional Non-executive Directors

If the relevant Trigger Event has not otherwise been remedied or waived within six months from the date of its occurrence or such longer period as the Security Trustee, each Financial Guarantor and SWS may agree in a Remedial Plan, the Security Trustee will be entitled to procure the appointment of further non-executive directors to the board of SWS (in addition to those already on the board of SWS) in such numbers as would allow it, following such appointments, to have appointed a maximum of 20 per cent. of the board by number.

(vi) Payments under Outsourcing Agreements and Capex Contracts with Associates

All payments made by SWS under Outsourcing Agreements and/or Capex Contracts with Associates (excluding, for the avoidance of doubt, contracts which fall within paragraphs (a) and (c) of the definition of “Distribution”) which do not comply with the Outsourcing Policy in all material respects, shall be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which SWS became aware of such non-compliance.

In respect of any of the Trigger Event Consequences described above which requires the Security Trustee to exercise its discretion, it must do so upon instructions of the Majority Creditors and any reference to reasonableness and reasonable time will be interpreted accordingly. The Security Trustee is entitled to assume that no Trigger Event has occurred unless informed otherwise.

In addition to the Trigger event Consequences listed above, a Trigger Event also constitutes a “Default” as defined in the MDA. There are certain provisions and definitions under the Finance Documents which reference a Default, and which have consequences beyond the Trigger Event Consequences. For example, the definition of “Permitted Financial Indebtedness” provides that, to the extent that the type of Financial Indebtedness incurred does not fall within limb (a) to (f) of the definition (see full definition of “Permitted Financial Indebtedness” under “Index of Defined Terms”), such type of Financial Indebtedness incurred while a Default is continuing will not constitute Permitted Financial Indebtedness. Accordingly, the Obligors would require the consent of the Super Majority Creditors to waive such requirement in order to incur Permitted Financial Indebtedness.

Trigger Event Remedies

At any time when the Issuer or SWS (as the case may be) believes that a Trigger Event has been remedied by virtue of any of the following, it shall serve notice on the Security Trustee to that effect, and the Security Trustee must respond within 10 days (or such longer period as it may reasonably stipulate within five Business Days of receipt of such notice from the Issuer or SWS (as the case may be)) confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event shall continue to be a Trigger Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

The following shall constitute remedies to the Trigger Events (each, a "**Trigger Event Remedy**"):

(i) Financial Ratios

The breach of a Trigger Event Ratio Level shall be remedied if such ratio or ratios come within the relevant level or levels specified below in relation to the most recently occurring Calculation Date:

(a) the Senior RAR as at such Calculation Date and, in the case of any forward-looking ratios, as at the 31 March falling in each Test Period relating to such Calculation Date is or is estimated to be less than 0.900:1;

(b) the Class A RAR as at such Calculation Date and, in the case of any forward-looking ratios, as at the 31 March falling in each Test Period relating to such Calculation Date is or is estimated to be less than 0.750:1;

(c) the Senior Adjusted ICR for each Test Period relating to such Calculation Date is or is estimated to be greater than 1.10:1;

(d) the Class A Adjusted ICR for each Test Period relating to such Calculation Date is or is estimated to be greater than 1.30:1;

(e) the Senior Average Adjusted ICR is or is estimated to be greater than 1.20:1;

(f) the Class A Average Adjusted ICR is or is estimated to be greater than 1.40:1;

(g) the Conformed Senior Adjusted ICR for any Test Period is or is estimated to be greater than 1.10:1

(h) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be greater than 1.30:1;

(i) the Conformed Senior Average Adjusted ICR is or is estimated to be greater than 1.20:1; or

(j) the Conformed Class A Average Adjusted ICR is or is estimated to be greater than 1.40:1.

(ii) Credit Rating Downgrade

The occurrence of a Trigger Event in relation to a credit rating downgrade (see paragraph (ii) of "*Trigger Events*" above) shall be remedied if the credit rating of the relevant Class of debt given by any two of the Rating Agencies is above the Trigger Credit Rating.

(iii) Debt Service Required Payment Shortfall

The occurrence of a Trigger Event in relation to the non-payment of the Monthly Payment Amount into the Debt Service Payment Account (see paragraph (iii) of "*Trigger Events*" above) will be remedied if payment of the required amount is paid into the Debt Service Payment Account.

(iv) Material Deviation in Projections

The occurrence of a Trigger Event in relation to material deviations in projections (see paragraph (iv) of "*Trigger Events*" above) will be remedied if the deviations referred to in that paragraph, on any subsequent date, are less than 10 per cent. of the figure assumed by the Director General in the last

Periodic Review (adjusted to take account of any subsequent IDOK and Out-turn Inflation) or, if a different figure is subsequently agreed by Ofwat and SWS, the deviations are less than 10 per cent. of the subsequently agreed figure, as the case may be.

(v) Liquidity for Capital Expenditure and Working Capital

The occurrence of a Trigger Event in relation to liquidity for capital expenditure and working capital (see paragraph (v) of "*Trigger Events*" above) will be remedied if on any subsequent date the amounts referred to in sub-paragraphs (i) to (iii) of that paragraph are in aggregate equal to or greater than the aggregate of the amounts referred to in sub-paragraphs (a) to (e) of that paragraph.

(vi) Drawdown on DSR Liquidity Facilities and O&M Reserve Facility

(a) The occurrence of a Trigger Event in relation to drawdowns under the DSR Liquidity Facility (see paragraph (vi) of "*Trigger Events*" above) will be remedied if the amount available for drawing under the DSR Liquidity Facilities when aggregated with all amounts standing to the credit of the Debt Service Reserve Account is restored to at least the Required Balance.

(b) The occurrence of a Trigger Event in relation to a drawing under the O&M Reserve Liquidity Facility (see paragraph (vi) of "*Trigger Events*" above) will be remedied if the amount available for drawing under the O&M Reserve Facility, when aggregated with the O&M Reserve, is at least equal to the O&M Reserve Required Amount.

(vii) Enforcement Order

The occurrence of a Trigger Event in relation to an Enforcement Order (as set out in paragraph (vii) of "*Trigger Events*" above) will be remedied if SWS has complied with the terms of the relevant Enforcement Order to the reasonable satisfaction of the Security Trustee or if the Enforcement Order has been effectively withdrawn or if, in the opinion of the Security Trustee (acting reasonably), the relevant fine will not have a Material Adverse Effect or that the Instrument of Appointment will not be terminated.

(viii) Circumstances Leading to a Special Administration Order

The occurrence of a Trigger Event in relation to circumstances leading to a Special Administration Order (as set out in paragraph (viii) of "*Trigger Events*" above) will be remedied if: (a) a Special Administration Order is not made within six months of the relevant Trigger Event occurring; or (b) the Security Trustee is reasonably satisfied that a Special Administration Order will not be made in respect of SWS.

(ix) Termination of Instrument of Appointment

The occurrence of a Trigger Event in relation to termination of the Instrument of Appointment (as set out in paragraph (ix) of "*Trigger Events*" above) will be remedied by agreement by SWS to the extent that a Transfer Scheme reasonably satisfactory to the Security Trustee is implemented prior to the termination of the Instrument of Appointment.

(x) Event of Default

The occurrence of a Trigger Event in relation to an Event of Default (as set out in paragraph (x) of "*Trigger Events*" above) will be remedied if the Event of Default is waived or revoked in accordance with the STID or is remedied to the reasonable satisfaction of the Security Trustee.

(xi) Material Entity Event

The occurrence of a Material Entity Event in relation to a Trigger Event (as set out in paragraph (xi) of "*Trigger Events*" above) will be remedied:

(a) if it is remedied to the satisfaction of the Security Trustee and each Financial Guarantor;

(b) if the Contractor has been replaced in accordance with the Outsourcing Policy or if SWS has terminated the appointment of the relevant Contractor and assumed the obligations of that Contractor as prescribed under the relevant Material Agreement; or

(c) upon the acceptance by the Security Trustee and each Financial Guarantor of a Remedial Plan for as long as it is being complied with in all respects.

(xii) Referral

The occurrence of a Trigger Event in relation to a referral under the Instrument of Appointment (as set out in paragraph (xii) of "*Trigger Events*" above) will be remedied if:

(a) in the absence of any determination or forecast of the determination of the Director General the financial ratios set out above come within the relevant level or levels specified in paragraph (i) of "*Trigger Event Remedies*" in relation to the most recently occurring Calculation Date; or

(b) the Director General has made a determination that restores the financial ratios specified in paragraph (i) of "*Trigger Events*" above to at least the Trigger Event Ratio Levels.

(xiii) Audit Qualification

The occurrence of a Trigger Event in relation to an audit qualification (as set out in paragraph (xiii) of "*Trigger Events*" above) will be remedied if the Security Trustee is satisfied that such qualification does not affect the veracity of the financial ratios calculated in accordance with the Common Terms Agreement or if SWS produces a further set of Statutory Accounts upon which the auditors' report is not qualified.

(xiv) Adverse Governmental Legislation

The occurrence of the Trigger Event in relation to adverse Governmental legislation (as set out in paragraph (xiv) of "*Trigger Events*" above) will be remedied if the draft bill fails to become an act of parliament or becomes an act in a form which is reasonably likely not to cause a breach of the financial ratios set out in paragraph (i) of "*Trigger Events*" above or such financial ratios are otherwise reinstated to the Trigger Event Ratio Levels or the Director General has confirmed that the Capital Expenditure which would otherwise have led to a material deviation as referred to in paragraph (iv) of "*Trigger Events*" above is allowable under adjustments to the RCV and, when taking such adjustment into account, such financial ratios would meet the Trigger Event Ratio Levels.

(xv) Modification or Replacement of Instrument of Appointment

The occurrence of a Trigger Event in relation to the modification or replacement of the Instrument of Appointment (as set out in paragraph (xv) of "*Trigger Events*" above) will be remedied if an independent expert on behalf of the Security Trustee determines that the modifications to the Instrument of Appointment or, as the case may be, the replacement licence or licences to be granted to SWS will or do contain equivalent terms which permit SWS to carry on its water and sewerage business substantially as carried on as of the Initial Issue Date taking into account any changes in the regulatory environment since the Initial Issue Date and in the opinion of the Security Trustee such terms will not be reasonably likely to:

(a) have a Material Adverse Effect; or

(b) result in a breach of the financial ratios as referred to in paragraph (i) of "*Trigger Events*" above.

(xvi) Conduct of Business

Within six months of the date of the occurrence of the Trigger Event in relation to the conduct of business (as set out in paragraph (xvi) of "*Trigger Events*" above), SWS disposes of all or part of the Permitted Non-Appointed Business so that the Permitted Non-Appointed Business Limits will be complied with during the current Test Period excluding (for the purpose of calculating such ratio) the aggregate Non-Appointed Expenses of the former Permitted Non-Appointed Business which has been disposed of by SWS during such Test Period.

(xvii) Breach of Outsourcing Policy

The occurrence of the Trigger Event in relation to a breach of the Outsourcing Policy (as set out in paragraph (xvii) of "*Trigger Events*" above) will be remedied and the Trigger Event Consequence set out in paragraph (vi) of "*Trigger Event Consequences*" above will be disapplied if SWS takes such action as is necessary so that it is in compliance with the Outsourcing Policy.

(xviii) Adverse Final Determination of K

The occurrence of the Trigger Event in relation to an adverse final determination of K (as set out in paragraph (xviii) of "*Trigger Events*" above) will be remedied if the financial ratios set out above 'come within the relevant level or levels specified in paragraph (i) of "*Trigger Event Remedies*" in relation to the most recently occurring Calculation Date.

In respect of any of the Trigger Event Remedies which require the Security Trustee to exercise its discretion, it must do so upon instructions of the relevant Majority Creditors, and any reference to reasonableness and reasonable time will be interpreted accordingly.

Events of Default

The Common Terms Agreement contains a number of events of default (the "**Events of Default**") which will be Events of Default under each Finance Document (other than, in the respect of the Hedge Counterparties, the Hedging Agreements). Subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods. Events of Default include:

(a) non-payment of amounts payable under the Finance Documents within three Business Days of the due date;

(b) non-compliance with certain other obligations under the Finance Documents (other than the Tax Deeds of Covenant) or the occurrence of a TDC Breach which is continuing;

(c) material misrepresentation;

(d) any Financial Indebtedness not being paid when due (after the expiry of any applicable grace period) or any Financial Indebtedness being declared due and payable prior to its specified maturity as a result of an event of default;

(e) an Insolvency Event or Insolvency Proceedings occur(s) in relation to the Obligors other than SWS or, in relation to SWS, an insolvency event or insolvency proceedings as set out further in the CTA occur(s) in relation to SWS;

(f) SWS transferring the Instrument of Appointment without the Security Trustee's consent or SWS receiving notice that the Instrument of Appointment will be revoked or terminated and a scheme of transfer not being approved by the Secretary of State or the Director General on or before the date falling two years prior to the expiration of such notice;

(g) the Instrument of Appointment being terminated and not replaced immediately by a further licence on equivalent terms taking into account any changes in the regulatory environment since the Initial Issue Date;

(h) insufficient liquidity (from operating cash flows, the Authorised Credit Facilities and the Capex Reserve Account) to meet SWS's forecast Capital Maintenance Expenditure and working capital requirements projected for the next six-month period;

(i) attachment, sequestration, distress or execution involving sums in excess of £500,000 (indexed) and if not discharged within 30 days;

(j) any Obligor repudiating a Finance Document or it becoming unlawful or ineffective for any Obligor to perform its material obligations under any Finance Document;

(k) an SWS Change of Control occurs;

(l) any of the Security ceasing to be in full force and effect;

(m) certain governmental action (including nationalisation) which would be reasonably likely to have a Material Adverse Effect;

(n) a member of the SWS Financing Group failing to comply with a judgment involving sums in excess of £500,000 (indexed) in aggregate at any time except where such judgement is being appealed in good faith to a higher court;

(o) other than in the case of a Permitted Lease Termination, an Obligor not having legal power to perform its obligations under the Finance Documents or any obligation of any Obligor under a relevant Finance Document (other than stamp duty indemnities) ceasing to be legal, binding and enforceable and the absence of compliance has a Material Adverse Effect;

(p) SWS failing to comply with its obligations under the Outsourcing Policy (and such failure has a Material Adverse Effect);

(q) an Obligor other than SWS ceasing or threatening to cease to carry on its business (or any substantial part of its business) it carries on as at the date of the CTA or as contemplated by the Finance Documents or SWS ceasing or threatening to cease to carry on the Appointed Business (or any substantial part of the Appointed Business) it carries on at the date of the CTA or which is contemplated by the Finance Documents other than as permitted by the Finance Documents;

(r) litigation being started against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would have a Material Adverse Effect;

(s) the shadow rating of the Class A Wrapped Bonds or the rating of the Class A Unwrapped Bonds in each case ascribed by two Rating Agencies being less than the minimum required for Investment Grade;

(t) the Class A ICR being less than 1.60:1, the Senior RAR being more than 0.950:1 and/or the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the immediately preceding 12-month period is less than 1.00:1;

(u) an Obligor (other than SWS) amending its memorandum or articles of association or SWS amending its memorandum or articles, if such amendment relates to the terms of the SWS Preference Shares or is in a manner which is reasonably likely to have a Material Adverse Effect or diminish the value of any

Security Interest granted in favour of the Security Trustee, unless the Security Trustee has previously given its prior written consent to such amendment;

(v) a Material Entity Event (as described in "**Material Entity Events**" below) occurring which has a Material Adverse Effect.

In March 2005, SWS obtained a waiver from the Majority Creditors in relation to certain aspects of the Single Entity Contract PR04 described in Chapter 5 "*Description of the SWS Financing Group – Capital Investment Programme*" that do not comply with the Outsourcing Policy.

In December 2005, SWS obtained a waiver from the Majority Creditors in relation to the opening of two new bank accounts required in order to implement a counter payment network service administered by PayPoint Network Limited and PayPoint Collections Limited, which provides SWS with the facility to collect cash payments for water bills through PayPoint terminals located in the convenience retail sector.

In respect of each Event of Default requiring any action or discretion on the part of the relevant creditor, the Security Trustee will (save in respect of certain Entrenched Rights and Reserved Matters (see "*Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see "*Security Trust and Intercreditor Deed*" above).

Immediately upon the notification to the Security Trustee of an occurrence of an Event of Default, a Standstill Period will commence in accordance with the STID (see "*Security Trust and Intercreditor Deed – Standstill*" above).

Material Entity Events

The Common Terms Agreement provides (subject, in some cases to certain exceptions, reservations of law and grace periods) that each of the following will constitute a Material Entity Event in respect of any Contractor under a Material Agreement or, as the case may be, SWS, to the extent that such event would be reasonably likely to have a Material Adverse Effect:

(a) any amount due from the Contractor or SWS is not paid unless payment is made within 15 days of an Obligor becoming aware of such failure or save if such payment is being disputed in good faith;

(b) any representation or statement made or deemed to be made by a Contractor or SWS in any Material Agreement is or proves to have been incorrect or misleading in any respect when made or deemed to be made and such failure, if capable of remedy, is not remedied by the Contractor or SWS within 30 days of it becoming aware that such representation was incorrect or misleading in any respect;

(c) the Contractor or SWS fails duly to perform or comply with any other obligation expressed to be assumed by it in any Material Agreement and such failure, if capable of remedy, is not remedied by such Contractor or SWS, as the case may be, within 30 days of becoming aware of such breach;

(d) the Contractor:

(A) ceases or suspends generally payment of its debts or publicly announces an intention to do so or is unable to pay its debts as they fall due or is deemed to be insolvent; or

(B) commences negotiations with or makes a proposal to any one or more of its creditors concerning its solvency, with a view to the readjustment or rescheduling of any indebtedness;

(e) an Insolvency Event or equivalent event occurs in relation to a Contractor to a Material Agreement;

(f) the Contractor fails to comply with or pay any sum due from it under any judgment or any order made or given by any court of competent jurisdiction at any time except where such judgment is being appealed in good faith to a higher court;

(g) any Material Agreement to which the Contractor and SWS is a party or any obligation purported to be contained therein or the security or credit enhancement intended to be effected in relation to such Material Agreement is repudiated by the Contractor or SWS or it does or causes to be done any act or thing evidencing an intention to repudiate, abandon, cancel, suspend or terminate any Material Agreement to which SWS or the Contractor is a party or the security or credit enhancement related thereto or any such obligation or any such security or subordination effected under any of the Material Agreements to which it is a party or any Material Agreement is not or ceases to be in full force and effect or the legal validity or applicability thereof to any sums due or to become due thereunder is disaffirmed by the Contractor or SWS or on behalf of the Contractor or SWS; and

(h) the Contractor, SWS or any provider of security or credit enhancement therefor does not have the legal power to perform any of its obligations under the Material Agreements or, as the case may be, such security or credit enhancement or to own any assets or to carry on any part of its business or at any time it is or becomes unlawful for the Contractor, SWS or any provider of security or credit enhancement therefor to perform or comply with any of its obligations under any Material Agreement or any of the obligations of the Contractor or any provider of security or credit enhancement thereunder are not or cease to be legal, valid, binding and enforceable.

Conditions Precedent

The conditions precedent to, among other things, the release of Financial Guarantees and to the issue of Bonds are set out in a conditions precedent agreement dated 23 July 2003 (the "**CP Agreement**") between, among others, the Bond Trustee, the Security Trustee and the Obligors.

Cash Management

Accounts

In accordance with the Common Terms Agreement, SWS has opened and maintains the following Accounts with the Account Bank:

(a) each Operating Account;

(b) an O&M Reserve Account; and

(c) the Capex Reserve Account.

The Issuer has also opened or (in the case of the O&M Reserve Account) shall open and maintain the following Accounts with the Account Bank:

(a) the Debt Service Payment Account;

(b) the Debt Service Reserve Account; and

(c) in the event the Issuer becomes a borrower under an O&M Reserve Facility, an O&M Reserve Account.

SWSGH and SWSH have each opened and maintain one chequing account only with the Account Bank.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "**Accounts**". Each of the Accounts is held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor agreed in the Common Terms Agreement to comply with the Account Bank Agreement and the provisions of the Common Terms Agreement applying to its Accounts.

Operating Accounts

Under the Common Terms Agreement, SWS must ensure that all of its revenues (other than any interest or Income which is credited to the Account from which the Authorised Investment was made) will be paid into an operating account.

For those revenues of SWS which are received into existing collection accounts of SWS with a bank other than the Account Bank, SWS must ensure the balance on such collection accounts is transferred into an Operating Account at least once a week and, following a downgrade of the short term unsecured unsubordinated debt rating of such bank (excluding for this purpose Alliance & Leicester Commercial Bank plc (formerly Girobank and now part of the Santander Group)) below the Minimum Short-term Rating, on close of business of each Business Day.

The Operating Accounts are the principal current accounts of SWS through which all operating and Capital Expenditure or any Taxes incurred by SWS and (subject to the terms of the Finance Documents) payments in respect of the Financial Indebtedness of the SWS Financing Group which are not permitted to be satisfied out of monies credited to the Debt Service Payment Account are cleared. SWS may make transfers at any time from one Operating Account to another, in its sole discretion.

All operating expenditure of SWS is funded: (a) through payments made directly into the Operating Accounts; and (b) through drawings made by the Issuer or SWS under any Authorised Credit Facility or other Permitted Financial Indebtedness and, in the case of drawings made by the Issuer (except under any DSR Liquidity Facility), on lent to SWS under an Issuer/SWS Loan Agreement, as and when required and permitted by the Finance Documents. Capital Expenditure is funded out of monies standing to the credit of the Operating Accounts, out of cash transfers made from the Capex Reserve Account to the Operating Accounts and/or (in relation to Capital Maintenance Expenditure), to the extent that the sums standing to the credit of the Operating Accounts and the Capex Reserve Account are insufficient, SWS's O&M Reserve Account.

All Distributions, payments under the SWS Preference Shares (or, following an SWS Preference Share Conversion Event, the relevant Subordinated Debt into which the SWS Preference Shares are converted) and Permitted Post-Closing Events have been or will be funded (directly or indirectly) out of monies standing to the credit of the Operating Accounts subject always to the satisfaction of all of the conditions set out in the Common Terms Agreement for the making of such payments.

Annually on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day) SWS calculates the Annual Finance Charge for the period of 12 months commencing on the immediately following 1 April, and details of such calculation are included in the next following Investors Report.

Under the Common Terms Agreement, SWS on the opening of business on the first Business Day of each month until the Discharge Date transfers to the Issuer from the Operating Accounts an amount (the "**Monthly Payment Amount**") equal to $^{1}/_{12th}$ of SWS's Annual Finance Charge for the relevant 12-month period to the Debt Service Payment Account provided that the aggregate of any interest accruing on and credited to the Debt Service Payment Account is treated as a prepayment of future Monthly Payment Amounts payable during the relevant 12-month period. Accordingly, the Monthly Payment Amounts due for the remaining months of such 12-month period shall be reduced pro rata to reflect such prepayment.

SWS recalculates the Annual Finance Charge and the Monthly Payment Amount, as applicable if, during the course of any relevant 12-month period, there occurs any increase (whether as a result of any increase in the rate of applicable interest, any drawing under any Authorised Credit Facility, any deferral of interest, any upwards adjustment of rentals under any Finance Lease, or otherwise) or decrease (whether as a result of any reduction in the rate of applicable interest, downwards adjustment of rentals under any Finance Lease or any prepayment or repayment of the debt under which the relevant liabilities arise or accrue or otherwise) in the

Annual Finance Charge and adjusts the Monthly Payment Amount for the remaining months in the relevant 12-month period, and details are included in the next following Investors Report.

Capex Reserve Account

As at 31 January 2019 approximately £79.8 million was standing to the credit of the Capex Reserve Account.

SWS may not withdraw any monies from the Capex Reserve Account unless such withdrawal is for the purpose of funding a transfer to the Operating Account on account of SWS's capital expenditure requirements or as contemplated below in relation to the application of insurance proceeds.

SWS must ensure that the proceeds of any advance to it under any Authorised Credit Facility for the purpose of funding its capital expenditure is paid directly into the Capex Reserve Account or an Operating Account.

SWS must also ensure that all proceeds of any property damage insurance claim (other than in respect of delay in start-up, business interruption or anticipated loss in revenue or third-party claims) are paid directly into the Capex Reserve Account.

SWS may withdraw the proceeds of property damage insurance claims from the Capex Reserve Account for application in meeting payments which are due and payable in respect of the restoration, reinstatement or replacement of the asset lost or damaged or, where any Permitted Lease Termination has arisen as a consequence of the loss of such asset, in payment of any Class A Debt falling due on the date of that Permitted Lease Termination arising as a consequence of the loss of such asset.

If SWS has paid sums to reinstate, restore or replace assets or effects lost or damaged or to meet claims by third parties out of moneys withdrawn from the Operating Accounts, then SWS may pay the relevant insurance amounts received directly into an Operating Account. If the reinstatement, restoration or replacement cost of any damaged property is less than the property damage insurance proceeds received by it in relation to such property, SWS may pay the difference into an Operating Account.

SWS's O&M Reserve Account

As at 31 March 2019 approximately £6,700 was standing to the credit of the O&M Reserve Account.

SWS may not withdraw any monies from its O&M Reserve Account unless (i) such withdrawal is for the purpose of funding a transfer to an Operating Account on account of operating and capital expenditure requirements that cannot be met from existing balances in the Operating Accounts and additionally, in the case of any capital expenditure requirement, the Capex Reserve Account (ii) such withdrawal is for the purpose of transferring into an Operating Account any interest income earned from time to time on the O&M Reserve (including Income from any related Authorised Investments) or (iii) prior to making a withdrawal, SWS delivers a certificate to the Security Trustee and the Account Bank certifying that, following such proposed withdrawal, the aggregate of the O&M Reserve and all amounts then available for drawing under any O&M Reserve Facility are at least equal to the O&M Reserve Required Amount on the date of such withdrawal. As at the date of this Prospectus, SWS has not withdrawn any monies from its O&M Reserve Account.

SWS must ensure that the proceeds of any drawing by the Issuer under any O&M Reserve Facility Agreement (other than a Standby Drawing) are lent by the Issuer to SWS under an Issuer/SWS Loan Agreement and are paid directly into SWS's O&M Reserve Account or an Operating Account.

Debt Service Payment Account

As at 31 March 2019 approximately £110.7 million was standing to the credit of the Debt Service Payment Account.

SWS must ensure that each transfer of or in respect of the Monthly Payment Amount from the Operating Account, is made to the Issuer directly into the Debt Service Payment Account.

The Common Terms Agreement provides that, on each Payment Date, monies credited to the Debt Service Payment Account must be applied by the Issuer in the following order for the purpose of enabling the following payments ("**Permitted Payments**") to be made in the following order of priority (the "**Payment Priorities**") without double counting:

(i) *first* (to the extent that there are insufficient monies standing to the credit of all other Accounts and/or available for drawing under any Liquidity Facility), in or towards satisfaction of all of the SWS Financing Group's operating costs (except to the extent falling due under the Finance Documents) and maintenance costs;

(ii) *second*, pro rata, according to the respective amounts thereof in or towards satisfaction of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee;

(iii) *third*, pro rata, according to the respective amounts thereof in or towards satisfaction of, on a pro rata basis: (a) the remuneration, costs and expenses of each Agent, the Account Bank under the Account Bank Agreement, each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement, each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement, each facility agent under the relevant Authorised Credit Facility and the Standstill Cash Manager; and (b) the remuneration, costs and expenses of and fees of each Financial Guarantor pursuant to the relevant G&R Deed;

(iv) *fourth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue to each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (b) all amounts of fees, interest and principal (other than Subordinated Liquidity Facility Amounts) due or overdue to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; and (c) all amounts of interest and principal due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility to the extent that the Financial Indebtedness was incurred to fund a New Money Advance;

(v) *fifth*, pro rata according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Interest Rate Hedging Agreement;

(vi) *sixth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest (including the Lease Reserve Amounts and Adjusted Lease Reserve Amounts), recurring fees and commitment commissions due or overdue in respect of the Class A Debt (other than any Subordinated Coupon Amounts and Subordinated Authorised Loan Amounts); (b) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xvi) below); (c) all scheduled amounts (other than principal exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to paragraph (xvi) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (d) all amounts of underwriting commissions due or overdue in respect of the Class A Debt; and (e) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class A Wrapped Debt guaranteed by such Financial Guarantor;

(vii) *seventh*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class A Debt (including, in respect of Finance Leases, those amounts payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provision of a Finance

Lease); (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt (except to the extent required to be paid at paragraph (xvi) below); and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class A Wrapped Debt guaranteed by such Financial Guarantor;

(viii) *eighth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt;

(ix) *ninth*, pro rata according to the respective amounts thereof, in or towards satisfaction of ail Subordinated Coupon Amounts due or overdue in respect of any Class A Bonds;

(x) *tenth*, in payment to the Debt Service Reserve Account until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facility Agreements is equal to the Class A Required Balance;

(xi) *eleventh*, in payment to the Issuer's O&M Reserve Account until the sum of the O&M Reserve and the aggregate of amounts available to be drawn under O&M Reserve Facilities is equal to the O&M Reserve Required Amount;

(xii) *twelfth*, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of: (a) interest and commitment commissions due or overdue in respect of the Class B Debt (other than any Subordinated Coupon Amounts due or overdue in respect of any Class B Bonds and Subordinated Authorised Loan Amounts); (b) all amounts of underwriting commissions due or overdue in respect of the Class B Debt; (c) except to the extent required to be paid at paragraph (xvi) below, all scheduled amounts (other than principal exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt and (following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class B Wrapped Debt guaranteed by such Financial Guarantor;

(xiii) *thirteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class B Debt; (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) except to the extent required to be paid at paragraph (xvi) below, any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class B Wrapped Debt guaranteed by such Financial Guarantor;

(xiv) *fourteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of any Make-Whole Amounts due and payable on the Class B Debt;

(xv) *fifteenth*, in payment to the Debt Service Reserve Account until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facilities is equal to the sum of the Class A Required Balance and the Class B Required Balance;

(xvi) *sixteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) any other amounts (not included in paragraphs (vi) and (vii) above) due and/or overdue to the Finance Lessors; and (b) any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer to enter into a transaction to replace a Hedging Agreement (in whole or in part)) shall be applied first in payment of amounts due to the Hedge Counterparty in respect of that Hedging Agreement;

(xvii) *seventeenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity Facility Provider under the Liquidity Facility Agreements; (b) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class A Debt; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class A Wrapped Debt guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class A Debt not referred to in other sub-paragraphs of the definition of "Payment Priorities";

(xviii) *eighteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class B Debt; (b) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class B Wrapped Debt guaranteed by such Financial Guarantor; and (c) any amounts payable in respect of Class B Debt not referred to in any other sub-paragraphs of the "Payment Priorities";

(xix) *nineteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of any Class B Bonds;

(xx) *twentieth*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of interest due or overdue in respect of the Senior Mezzanine Debt;

(xxi) *twenty-first*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of principal due or overdue in respect of the Senior Mezzanine Debt;

(xxii) *twenty-second*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of any other sums due or overdue in respect of the Senior Mezzanine Debt;

(xxiii) *twenty-third*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of interest due or overdue in respect of the Junior Mezzanine Debt;

(xxiv) *twenty-fourth*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of principal due or overdue in respect of the Junior Mezzanine Debt;

(xxv) *twenty-fifth*, subject always to the satisfaction of the Restricted Payment Condition, pro rata according to the respective amounts thereof, in or towards satisfaction of any other sums due or overdue in respect of the Junior Mezzanine Debt;

(xxvi) *twenty-sixth*, subject always to the satisfaction of the Restricted Payment Condition, in or towards satisfaction of all sums due or overdue in respect of any Subordinated Debt into which the SWS Preference Shares have converted upon an SWS Preference Share Conversion Event where the holder of such Subordinated Debt has acceded to the STID as a Secured Creditor; and

(xxvii) *twenty-seventh*, (to the extent required in the Common Terms Agreement) the balance shall remain in the Debt Service Payment Account.

Any payment made by the Issuer to a Secured Creditor pursuant to the Payment Priorities on account of a liability in respect of which SWS is the principal debtor is treated as having discharged SWS's obligation to make such payment to that Secured Creditor. SWS is also treated as having discharged its related payment obligation to the Issuer under the relevant Issuer/SWS Loan Agreement upon (and to the extent of) the Issuer making a payment pursuant to the Payment Priorities to a Secured Creditor in respect of which the Issuer is the principal debtor.

The Payment Priorities set out in paragraphs (i) to (xxvi) inclusive do not apply to: (a) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied; (i) in repayment or prepayment of any existing Financial Indebtedness of the SWS Financing Group (including Subordinated Debt); or (ii) in redeeming the SWS Preference Shares, in each case, to the extent permitted by the CTA; or (b) any return of collateral or premium or upfront payment in relation to a Hedging Agreement contemplated in paragraph (xvi) above which will be paid to the relevant Hedge Counterparty directly. In no circumstance is the Issuer entitled to apply monies represented by the Monthly Payment Amount in or towards making a Restricted Payment.

For so long as no Standstill Event is continuing, SWS must, on the date which is seven Business Days prior to each Payment Date (such date, a "**Determination Date**"), determine whether the aggregate amount of monies then credited to the Debt Service Payment Account is at least equal to the aggregate of all amounts referred to in paragraphs (i) to (xix) inclusive of the Payment Priorities which fall due and payable on such Payment Date taking account of any receipts due from any Hedge Counterparty under any Hedging Agreement on such Payment Date (such aggregate amount, "**Scheduled Debt Service**"). If the balance on the Debt Service Payment Account on a Determination Date is less than the amount of Scheduled Debt Service falling due on the following Payment Date, then SWS will promptly transfer to the Debt Service Payment Account an amount equal to the shortfall from sums standing to the credit of the Operating Accounts. No amounts may be so transferred to the extent that to do so would cause the aggregate net balance of the Operating Accounts to fall below the then current aggregate net overdraft limit on the Operating Accounts or cause the balance on any Operating Account to fall below the then current gross overdraft limit in respect of such Operating Account. If after making any required transfers from the Operating Accounts the balance on the Debt Service Payment Account would be insufficient to pay any Scheduled Debt Service falling due for payment at items (i) to (vi), (ix) or (xii) of the Payment Priorities (excluding any termination payments under any Hedging Agreements), the Issuer must promptly request a drawing under the DSR Liquidity Facility for payment on the following Payment Date in an amount equal to the shortfall (subject to any limitations in the DSR Liquidity Facility Agreements on drawings applicable to shortfalls relating to Class B Debt).

Until such time as a Standstill commences and is continuing, all amounts payable on any Payment Date must be paid strictly in the order referred to above, to the intent that no amounts falling to be paid under any paragraph may be paid until such time as the amounts falling to be paid on the same date or earlier under each preceding paragraph have been paid in full.

Debt Service Reserve Account and Issuer's O&M Reserve Account

The Issuer will be required to drawdown the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider: (i) ceases to have the Liquidity Facility Requisite Rating; or (ii) fails to renew its commitment at the end of the term of the relevant Liquidity Facility and whose commitment is not replaced by another Liquidity Facility Provider. The Issuer must deposit the proceeds of each such drawdown into the Debt Service Reserve Account (in the case of a drawdown under a DSR Liquidity Facility Agreement) or the Issuer's O&M Reserve Account (in the case of a drawdown under any O&M Reserve Facility). No monies may be withdrawn from the Debt Service Reserve Account or the O&M Reserve Account except as permitted by the relevant Liquidity Facility Agreement (see "*Liquidity Facilities*" below) or the Issuer delivers, prior to any withdrawal, a certificate to the Security Trustee and the Account Bank that following the making of such withdrawal: (a) in the case of the Debt Service Reserve Account, the aggregate of the amounts standing to the credit of the Debt Service Reserve Account and available for drawing under the DSR Liquidity Facilities is at least equal to the Required Balance; and (b) in the case of the Issuer's O&M Reserve Account, the aggregate of the O&M Reserve and amounts available for drawing under the O&M Facilities is at least equal to the O&M Required Amount.

SWS has agreed to procure that on any Payment Date (save for any date upon which a drawing is to be made under a DSR Liquidity Facility or out of the Debt Service Reserve Account to make a payment into the Debt Service Payment Account):

(a) the aggregate of: (i) all amounts available for drawing under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Debt Service Reserve Account (including the value of any Authorised Investments) are equal to the next 12 months' interest forecast to be due on the Class A Debt of the SWS Financing Group (the "**Class A Required Balance**"); and

(b) the aggregate of: (i) all amounts available for drawing in respect of Class B Debt under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Debt Service Reserve Account (including the value of any Authorised Investments) (after deducting all amounts required in order to satisfy the Class A Required Balance) are equal to the next 12 months' interest forecast to be due on the Class B Debt (other than in respect of any Subordinated Coupon Amounts) of the SWS Financing Group (the "**Class B Required Balance**" and, together with the Class A Required Balance, the "**Required Balance**").

Authorised Investments

The Common Terms Agreement allows SWS and the Issuer to invest in certain eligible Authorised Investments such part of the amounts standing to the credit of any of the Accounts as is prudent and in accordance with certain provisions to be set out in the Common Terms Agreement.

Cash Management During a Standstill Period

The arrangements described in "*Debt Service Payment Account*" above continue to apply until the commencement of a Standstill Period. The Common Terms Agreement provides that, so long as a Standstill Period continues unremedied, and provided no Enforcement Action (other than a Permitted Share Pledge Acceleration) has occurred, SWS shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager, who shall assume control of the Accounts, pay operating expenditure when it falls due and, on a monthly basis, calculate the aggregate of all payments falling to be made during the next following period of 12 months and shall calculate all net revenues received and/or expected to be received over that 12-month period. To the extent that the forecast revenues are insufficient (after paying all relevant operating expenditure) to pay the aggregate of all payments falling to be made during the next 12 months, the Standstill Cash Manager shall notionally apply those forecast revenues to each category in accordance with the Payment Priorities until the revenue that is forecast to be available is insufficient to meet all of the payments falling to be made within such 12-month period in any paragraph of the definition of "Payment Priorities" (the "**Shortfall Paragraph**") and shall, in respect of those categories of payment falling within the Shortfall Paragraph, divide the anticipated revenues remaining pro rata between those amounts. Throughout the Standstill Period, any payments falling to be made within a category of payment falling within a Shortfall Paragraph shall be satisfied by a payment of the pro rata share of that payment so calculated and no payments falling in a category which (in accordance with the Payment Priorities) falls after a Shortfall Paragraph shall be made (and the balance of the payments not made shall remain outstanding).

The proceeds of enforcement of the Security which is permitted to be enforced during a Standstill Period will also be applied in accordance with the Payment Priorities. In circumstances where such enforcement occurs during a Standstill Period or following termination of a Standstill the proceeds of enforcement will be applied in accordance with the above Payment Priorities but excluding in these circumstances payments under paragraphs (i), (x), (xi) and (xv) thereof.

Security Agreement

Security

Each Obligor entered into the security agreement (the "**Security Agreement**") with the Security Trustee on the Initial Issue Date pursuant to which SWSH and SWSGH guarantee the obligations of each other Obligor under the Finance Documents and SWS and the Issuer guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee as security trustee for the Secured Creditors. Each Obligor has secured its property, assets and undertakings to the Security Trustee as trustee for the Secured Creditors. However, in respect of SWS, the creation, perfection and enforcement of such security is subject to the WIA, the Instrument of Appointment and requirements thereunder. As a result of the restrictions placed upon SWS in respect of the giving of security and the Special Administration procedure contained in the WIA, the value, effect and enforceability of the security granted by SWS is severely limited (see Chapter 3 "*Risk Factors*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" for a more detailed discussion of these issues).

The Security Agreement incorporates, to the extent applicable, the provisions of the Common Terms Agreement and is subject to the STID.

The security constituted by the Security Agreement is expressed to include:

(i) first fixed charges over:

(a) the ordinary shares in SWS, SWSH, the Pension Companies and the Issuer;

(b) each Obligor's right, title and interest from time to time in and to:

(A) any real property interests currently owned by it or acquired after the date of the Security Agreement (other than certain excluded property not exceeding in aggregate £10 million (indexed from the Initial Issue Date)); and

(B) the proceeds of disposal of any land (including Protected Land);

(c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;

(d) all moneys standing to the credit of each Obligor's accounts and the debts represented thereby;

(e) any Intellectual Property Rights owned by each Obligor (excluding information technology licence agreements);

(f) any present and future goodwill and any present and future uncalled capital and rights in relation to such uncalled capital;

(g) each Authorised Investment;

(h) all shares of any person owned by the Obligor including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;

(i) all present and future book and other debts;

(j) all benefit in respect of Insurances taken out by any Obligor and all claims and returns of premiums in respect thereof; and

(ii) an assignment of each Obligor's right in respect of Insurances taken out by any Obligor and in respect of its right, title and interest from time to time in and to:

(a) the proceeds of any insurance policies (other than motor insurance, employer's liability insurance, directors and officers liability insurance, pension fund trustee liability insurance and any other third-party liability insurance) and all rights related thereto;

(b) all Transaction Documents and any other document or agreement to which an Obligor is a party; and

(c) all damages, compensation, remuneration, profit, rent or income derived from information technology licence agreements; and

(iii) a first floating charge of the whole of the undertaking, property, assets and rights whatsoever and wheresoever present and future of each Obligor, except that the Security does not include any security over Protected Land (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*") or any of SWS's other assets, property and rights to the extent, and for so long as, the taking of any such security would contravene the terms of the Instrument of Appointment and requirements thereunder or the WIA.

The Security is held on trust by the Security Trustee for itself and on behalf of the Secured Creditors in accordance with and subject to the terms of the STID.

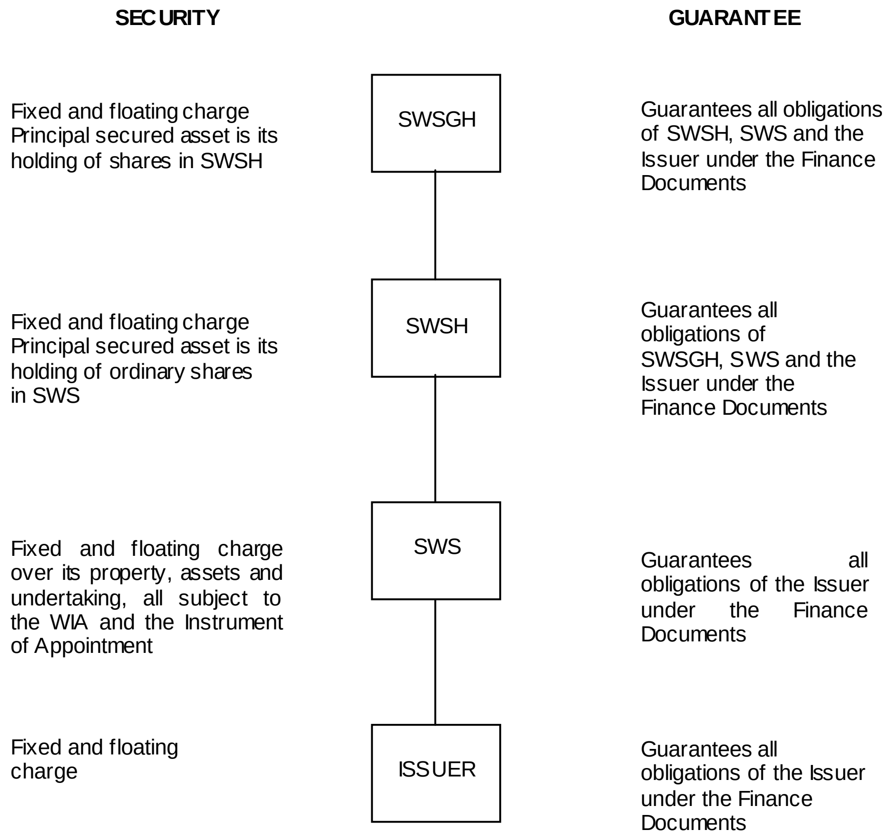
For a description of certain limitations on the ability of SWS to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 3 "*Risk Factors – Certain Legal Considerations – Security*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Restrictions on the Granting of Security*".

Notice of the creation of the Security has not been and will not be given initially to customers or to contractual counterparties in respect of contracts (other than certain material contracts) and each charge over land as purported to be granted has taken effect in equity only. Accordingly, until notice of the creation of the Security is given to the relevant customers or contractual counterparties or registration is effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, to the extent possible any such security or charge may be or become subject to prior equities and/or other legal rights arising in relation thereto.

Neither SWSGH nor SWSH has any significant assets other than the shares in its respective subsidiary.

Security Structure

The following shows the security provided by the SWS Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:



Financial Guarantor Documents

The Financial Guarantees of Wrapped Bonds

Assured Guaranty (formerly known as MBIA Assurance S.A., MBIA UK Insurance Limited and Assured Guaranty (Europe) plc, as applicable) have in the past issued Financial Guarantees in respect of the French Insurance Code. A decision of the Comité des Entreprises d'Assurance (the French insurance regulator) on 27 December 2007 approved the transfer of the business of MBIA to MBIA UK with effect from 28 December 2007 pursuant to article L.324-1 of the French Insurance Code. On 10 January 2017, Assured Guaranty Corp. acquired the entire issued share capital of MBIA UK, following which the registered name of MBIA UK Insurance Limited was changed to Assured Guaranty (London) plc ("**AGLN**"). On 7 November 2018, AGLN transferred its insurance portfolio to, and merged with and into Assured Guaranty (Europe) plc ("**Assured Guaranty**").

Assured Guaranty has, therefore, assumed all rights and obligations of MBIA Assurance S.A., MBIA UK Insurance Limited and Assured Guaranty (Europe) plc under the Transaction Documents as if it were the Initial Financial Guarantor of the Series of Wrapped Bonds issued on 23 July 2003, 27 May 2005, 18 October 2006 and 17 July 2007.) To the extent that Assured Guaranty or any other Financial Guarantors issue Financial Guarantees in respect of any further Series of Class A Bonds, such Financial Guarantees are expected to be issued by such Financial Guarantor(s) on terms substantially similar thereto. Upon an early redemption of the relevant Class A Wrapped Bonds or an acceleration of the relevant Class A Wrapped Bonds, the relevant Financial Guarantor's obligations in relation to outstanding Class A Wrapped Bonds issued prior to the date of this Prospectus will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (as defined in the relevant Financial Guarantee) on each Payment Date. Such Guaranteed Amounts are the Issuer's obligations: (1) to repay on their respective maturity date the outstanding nominal amount of the relevant Class A Wrapped Bonds, as reduced by each amount of principal repaid or prepaid by the Issuer, excluding any additional amount relating to premium, prepayment, early redemption, broken funding indemnities or penalties; and (2) on each Interest Payment Date, to pay the regularly scheduled interest under the relevant Class A Wrapped Bonds due on such Interest Payment Date, excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties or default interest or (for Floating Rate Bonds only) any amounts by which the margin on the coupon on such Class A Wrapped Bonds exceeds the initial margin on the coupon as at the date on which such Class A Wrapped Bonds were issued. The relevant Financial Guarantor will not be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the relevant Financial Guarantor will be the outstanding principal amount (or pro rata amount that has become due and payable) of the relevant Class A Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such outstanding principal amount (and any accrued interest thereon) will not be guaranteed by the relevant Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee alone has the right to enforce the terms of Financial Guarantees issued in respect of Wrapped Bonds, and any right of any other person to do so is expressly excluded.

Guarantee and Reimbursement Deeds

On each relevant Issue Date, the Issuer and SWS entered into a guarantee and reimbursement deed (each, a "**G&R Deed**") with the relevant Financial Guarantor, pursuant to which the Issuer is obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders or relevant holders of other Wrapped Debt against the Issuer in respect of any payments made.

On the Initial Issue Date and on 27 May 2005, the Issuer and SWS entered into a G&R Deed with MBIA Assurance S.A. (now Assured Guaranty, as described above) in respect of the Class A Wrapped Bonds issued on the Initial Issue Date and 27 May 2005, respectively.

On the Fourth Issue Date, the Issuer and SWS entered into a G&R Deed with MBIA UK (now Assured Guaranty, as described above) in respect of the Sub-Class A9 Wrapped Bonds issued on the Fourth Issue Date.

On the Fifth Issue Date, the Issuer and SWS entered into a G&R Deed with Assured Guaranty in respect of the Sub-Class A10 Wrapped Bonds issued on the Fifth Issue Date.

For the avoidance of doubt, the Issuer shall not issue any Class B Bonds pursuant to this Prospectus.

Additional Resources Available

Authorised Credit Facilities

SWS has entered into various bilateral and syndicated bank facilities, which incorporate and are subject to the terms of the STID and the CTA.

Existing Authorised Credit Facilities.

On 26 November 2014, SWS entered into a facility agreement (the "**Previous RCF Agreement**") with Abbey National Treasury Services Plc (t/a Santander Global Banking and Markets), Barclays Bank Plc, BNP Paribas, London Branch, Commonwealth Bank of Australia, HSBC Bank plc, J.P. Morgan Limited and the Royal Bank of Scotland plc for an aggregate facility amount of £350,000,000 (the "**Previous RCF**"). The Previous RCF Agreement had a term of 60 months and was accordingly amended and restated by the Existing RCF Agreement which, amongst other things, extended the term for another 60 months.

The Existing RCF Agreement was entered into with Santander UK Plc, BNP Paribas, London Branch, HSBC Bank plc, Lloyds Bank Plc, Sumitomo Mitsui Banking Corporation, London Branch and National Westminster Bank Plc for an aggregate facility amount of £330,000,000 as at 31 March 2019 (the "**Existing RCF**"). Under this facility agreement the loans may only be used for SWS's general corporate purposes, in or towards funding of SWS's working capital requirements or in or towards payment of SWS's Capital Expenditure requirements.

On 11 December 2019, SWS entered into a revolving facility agreement with Banco Santander S.A., London Branch and National Westminster Bank Plc for an aggregate facility amount of £600,000,000, which was subsequently increased to £700,000,000 on 8 January 2020 when Lloyds Bank plc acceded to the agreement (the "**2019 Bridge Facility Agreement**"). Under this facility agreement the loans may only be drawn on or after 31 March 2020 and may only be used towards funding the 2021 refinancing of certain bonds and associated swap accretion paydowns, as well as for capital expenditure.

Drawings under the revolving credit facilities are subject to various conditions precedent as set out in the relevant facility agreement, including that no Event of Default or Potential Event of Default is subsisting, and in the case of a roll-over advance no Event of Default is subsisting, and each Repeating Representation is correct at the time of requesting and making the drawing. In the event of a Standstill, any outstanding Advances under the revolving credit facilities shall convert into a term loan repayable on the earliest of: (i) the termination of the Standstill; (ii) the final Maturity Date and (iii) the date of any acceleration under, and as permitted by, the STID.

Interest accrues on any drawing under the revolving credit facilities calculated at a daily rate by reference to applicable sterling LIBOR plus a margin and mandatory costs. SWS also pays certain agency and arrangement and a commitment fee which accrues on any undrawn portion of the commitment under the revolving credit facilities.

The Issuer has also entered into a separate facility agreement with RBS under which RBS advanced to the Issuer a £165,000,000 index-linked term facility as at 31 March 2019 (the "**Initial Term Facility**"). RBS has transferred its rights and obligations in respect of the Initial Term Facility to Artesian Finance II plc ("**Artesian II**"). The advance under the Initial Term Facility has similar terms to Indexed Bonds in terms of interest accrual and payment, with a final repayment date in September 2033. The Issuer applied the proceeds of such advance in making an index-linked advance to SWS under the Initial Issuer/SWS Loan Agreement. Certain of the Issuer's payment obligations under the Initial Term Facility Agreement in respect of the advance under the Initial Term Facility are guaranteed by Assured Guaranty, the Financial Guarantor. The Issuer has given certain indemnities to Artesian II in connection with its funding of the Initial Term Facility.

The Issuer has further entered into a separate facility agreement dated 5 July 2004 (the "**Second Artesian Term Facility Agreement**") with RBS under which RBS advanced to the Issuer a £156,484,023.05 index-linked term facility as at 31 March 2019 (the "**Second Artesian Term Facility**"). RBS has transferred its rights and obligations in respect of the Second Artesian Term Facility to Artesian Finance plc ("**Artesian**"). The advance under the Second Artesian Term Facility has similar terms to Indexed Bonds in terms of interest accrual and payment, with a final repayment date in September 2032. The Issuer applied the proceeds of such advance in making an index-linked advance to SWS under the Second Issuer/SWS Loan Agreement. Certain of the Issuer's payment obligations in respect of the advance under the Second Artesian Term Facility are guaranteed by Assured Guaranty. The Issuer has given certain indemnities to Artesian in connection with its funding of the Second Artesian Term Facility.

The Existing RCF, the 2019 Bridge Facility, the Initial Term Facility and the Second Artesian Term Facility are referred to in this Prospectus as the "**Existing Authorised Credit Facilities**".

SWS and the Issuer make representations and warranties, covenants and undertakings to the Existing RCF Providers, 2019 Bridge Facility Providers, Artesian II, Artesian and Assured Guaranty on the terms set out in the Common Terms Agreement. The Existing RCF Providers, 2019 Bridge Facility Providers, Artesian II, Artesian and Assured Guaranty have acceded to the STID and the CTA.

The Events of Default under the Common Terms Agreement apply under the Existing Authorised Credit Facilities (see "*Common Terms Agreement*" above).

The ability of a lender under an Authorised Credit Facility to accelerate any sums owing to them under the Authorised Credit Facilities upon or following the occurrence of an Event of Default thereunder is subject to the STID.

SWS and/or the Issuer may enter into further Authorised Credit Facilities on terms similar to those in the Existing Authorised Credit Facilities. Each additional Authorised Credit Provider will be given the benefit of the Security and will be required to accede to the STID and the CTA.

SWS and the Issuer have entered into loan insurance and indemnity agreements with Assured Guaranty, under which: the Issuer agrees to reimburse to Assured Guaranty amounts paid by Assured Guaranty under Assured Guaranty's guarantee of amounts payable by the Issuer under the Initial Term Facility and the Second Artesian Term Facility; the Issuer agrees to pay a fee to Assured Guaranty and to pay, and to indemnify Assured Guaranty against, certain other of Assured Guaranty's costs and expenses; SWS and the Issuer made representations, warranties and covenants to Assured Guaranty on the terms set out in the Common Terms Agreement; and SWS guarantees to Assured Guaranty the Issuer's obligations to Assured Guaranty under such agreements.

The Liquidity Facilities

The existing DSR Liquidity Facility (the "**Existing DSR Liquidity Facility**") is provided by BNP Paribas, London Branch, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds Bank Plc, National Australia Bank Limited, Santander UK Plc and Sumitomo Mitsui Banking Corporation Europe Limited (the "**Existing DSR Liquidity Facility Providers**") is the only debt reserve Liquidity Facility in place as at the date of this Prospectus. The Issuer may establish further DSR Liquidity Facilities in connection with further Bonds and other Class A Debt and Class B Debt issued or incurred.

Under the terms of the Existing DSR Liquidity Facility Agreement, the Existing DSR Liquidity Facility Providers provide a 364 day commitment (which may be renewed from time to time, and with the current scheduled renewal date being 17 March 2020) in an aggregate amount specified in the Existing DSR Liquidity Facility Agreement to permit drawings to be made by the Issuer, in circumstances where there will be insufficient funds in the Debt Service Payment Account available on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of Class A Debt and principal amounts to be repaid and any Subordinated Coupon Amounts to be paid in respect of Class B Debt or any termination payments under any Hedging Agreements) scheduled to be paid in respect of paragraphs (i) to (vi) inclusive and (ix) and, after deducting any prior ranking payments, (xii) of the Payment Priorities (a "**DSR Liquidity Shortfall**").

The Issuer will not be able to make a drawing in respect of a DSR Liquidity Shortfall relating (in whole or in part) to Class B Debt unless the sum of the amount available under the DSR Liquidity Facilities and the amount standing to the credit of the Debt Service Reserve Account (immediately after such drawing) is not less than the next 12 months interest forecast on Class A Debt.

SWS has further entered into an O&M Reserve Facility Agreement with Commonwealth Bank of Australia and National Australia Bank Limited (the "**Existing O&M Liquidity Facility Providers**"). Under the terms of the existing O&M Reserve Facility Agreement, the Existing O&M Liquidity Facility Providers provide a 364-day commitment (which may be renewed from time to time, and with the current scheduled renewal date being 17 March 2020) in an aggregate amount specified in the Existing O&M Reserve Facility Agreement to permit drawings to be made by SWS in circumstances where there will be insufficient funds available in the O&M Reserve Account to pay any amounts required in respect of Projected Operating Expenditure and/or Capital Maintenance Expenditure as forecast by SWS in respect of the next succeeding 12 month period (an "**O&M Liquidity Shortfall**").

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has the Minimum Short-term Rating (the "**Liquidity Facility Requisite Rating**").

Each Liquidity Facility Provider may be replaced at any time provided that such Liquidity Facility Provider is replaced by a bank with the Liquidity Facility Requisite Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement does or will provide that amounts repaid by the Issuer may be redrawn.

Each Liquidity Facility Agreement does or will provide that if: (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Liquidity Facility Requisite Rating; or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Issuer will:

(a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Liquidity Facility Requisite Rating; and

(b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the Debt Service Reserve Account (in the case of a DSR Liquidity Facility) or the Issuer's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is re-rated with the Liquidity Facility Requisite Rating or confirmation is received from each of the Rating Agencies that either: (i) the terms of a replacement Liquidity Facility; or (ii) the absence of any such facility, in each case, as applicable, will not lead to a ratings downgrade of the Bonds from the relevant Rating Agencies.

Interest will accrue on any drawing (including a Standby Drawing) made under a Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer, in certain circumstances, will be required to pay additional amounts if: (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. Drawings under any further Liquidity Facilities will accrue interest subject to the specific terms of the relevant Liquidity Facility Agreement. The Issuer will also pay certain agency, arrangement and renewal fees as well as a commitment fee which accrue on any undrawn portion of the commitments under the Liquidity Facilities.

Upon the enforcement of the Security pursuant to the STID, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

Mezzanine Facility Agreement

The Issuer entered into a senior mezzanine facility agreement with, among others, The Royal Bank of Scotland plc (as agent), RBEF Limited (as arranger), Royal Bank Investments Limited as the Original Senior Mezzanine Facility Provider and the Security Trustee in an aggregate amount of £127,200,000 (the "**Senior Mezzanine**

Facility Agreement"). The Issuer borrowed the full amount available under the Senior Mezzanine Facility Agreement on the Initial Issue Date and lent the proceeds thereof together with the nominal principal amount of the Bonds issued and borrowings under other Authorised Credit Facilities raised on the Initial Issue Date to SWS under the Initial Issuer/SWS Loan Agreement. SWS applied such loan proceeds, among other things, to repay its existing indebtedness to the Issuer, and the Issuer applied such repayment proceeds to repay all of its indebtedness under the Bridge Facility Agreement and all of its indebtedness to SWI.

The Senior Mezzanine Facility has been fully repaid.

SWS Preference Shares

As at 31 March 2019, SWS has issued: (i) fixed dividend (£40 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS (the "**Class A1 Preference Shares**"); (ii) non-voting participating cumulative redeemable preference shares 2038 of 1p each in the capital of SWS (the "**Class A2 Preference Shares**"); and (iii) fixed dividend (£70 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS (the "**Class B Preference Shares**" and together with the Class A1 Preference Shares and the Class A2 Preference Shares the "**SWS Preference Shares**"). The SWS Preference Shares are non-voting save in respect of certain limited matters which are specific to the rights and value of the SWS Preference Shares.[20]

Under the terms of the CTA, SWS is not allowed to make any payments on or under the SWS Preference Shares unless the Restricted Payment Condition is satisfied (see "*Common Terms Agreement*" above).

The holders of the SWS Preference Shares enjoy certain specific and protective entrenched rights. These can be waived in accordance with the terms and conditions of the SWS Preference Shares and in addition, and among other things, will have no effect, and will not require SWS to obtain any consent or sanction of the SWS Preference Shareholders unless the proposed event or action would or could reasonably be expected to have a material adverse effect on the fundamental terms or value of their investment. For example, for so long as neither an Event of Default is continuing nor, if a Trigger Event has occurred and is continuing, has a Remedial Plan concluded that the failure to raise new Financial Indebtedness in the circumstances described below would lead to an Event of Default, in the circumstance where the Mezzanine Facility Providers would have an equivalent Entrenched Right (as described earlier in "*Security Trust and Intercreditor Deed – Entrenched Rights of the Mezzanine Facility Providers*"), the articles of association of SWS provide that SWS may not agree any modification to, or consent or waiver under or in respect of, any term of any Finance Document if the proposed modification, consent or waiver would permit the raising of new Financial Indebtedness by the SWS Financing Group to the extent that, as a result, the aggregate of the Senior Net Indebtedness and any other net indebtedness ranking in point of priority senior to the Senior Mezzanine Debt would exceed 90 per cent. of RCV, unless the Security Trustee has received consent from the holders of more than 50 per cent. of the aggregate nominal value of all classes of SWS Preference Shareholders or the sanction of an ordinary resolution passed at a separate general meeting of the holders of all classes of the SWS Preference Shares. Certain of these other key rights are also disapplied following an Event of Default.

The SWS Preference Shares may in certain circumstances be converted into Subordinated Debt of SWS, whereupon the holders of such Subordinated Debt will be required either to accede to the STID and the CTA for the purposes of, *inter alia,* taking the benefit of the Security and subordinating their secured claims to those of the holders of the Class A Debt, the Class B Debt and the Mezzanine Debt or to accede to the SWS Preference Share Deed (as defined below) for the purpose of, *inter alia*, restricting their right to accelerate their unsecured claims during a Standstill Period.

[20] See pages 196 – 197 of the Southern Water Annual Report and Financial Statements 2018/2019

The initial holders of the SWS Preference Shares entered into a deed on the Initial Issue Date with the Security Trustee and the Obligors (the "**SWS Preference Share Deed**") pursuant to which SWS agreed not to, and such holders of the SWS Preference Shares agreed not to permit or require SWS to, make any Distribution in respect of the SWS Preference Shares unless the Restricted Payment Condition is satisfied at such time and payments made in breach of the Restricted Payment Condition shall be immediately repaid to the Security Trustee and pending such repayment shall be held on trust for the Security Trustee. Under call option arrangements contained in the SWS Preference Share Deed, each holder of the SWS Preference Shares (other than the Class A2 Preference Shares) will be required to sell its SWS Preference Shares to any person who acquires the ordinary shares in SWSH or SWS following an enforcement of the Security granted by SWSGH or SWSH (or to any nominee of such person) for a consideration calculated to ensure that the price that such holder of the SWS Preference Shares receives will not be less than the price it would have received for its holding had its SWS Preference Shares been charged in favour of the Security Trustee as security for Secured Liabilities and sold as part of any disposal of the Security Assets on an enforcement of the Security granted by SWSGH and/or SWSH. In this event, the rights of the holders of the Class A2 Preference Shares will be deferred.

SWC owns the Class A1 Preference Shares and the Class B Preference Shares. SWI owns the Class A2 Preference Shares. Each of SWC and SWI has acceded to the SWS Preference Share Deed.

Hedging Agreements

Hedging Policy

The Hedging Policy provides that the SWS Financing Group must enter into Hedging Agreements in accordance with the Hedging Policy and that the only member of the SWS Financing Group that may enter into Hedging Agreements is the Issuer and, in respect of Interest Rate Hedging Agreements, SWS, provided that the Issuer may enter into back-to-back swap arrangements with SWS in respect of Hedging Agreements entered into by the Issuer to hedge the obligations of SWS under Finance Leases or any other Authorised Credit Facility raised by SWS or which are otherwise not directly linked to the raising of new debt under an Authorised Credit Facility.

The Hedging Policy provides, *inter alia*, that:

(i) The SWS Financing Group will not enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis.

(ii) Any change to the Hedging Policy will be subject to SWS board approval and may only be made with the approval of the Security Trustee (such approval not to be unreasonably withheld).

(iii) Subject to such approvals, the Hedging Policy will be reviewed from time to time by the SWS Financing Group and amended (subject to Entrenched Rights and Reserved Matters and in accordance with the provisions of the STID) as appropriate in line with market developments, regulatory developments, and Good Industry Practice.

(iv) The SWS Financing Group must not bear currency risk in respect of any foreign currency denominated debt instruments, or in respect of any significant foreign currency purchases.

(v) The SWS Financing Group must hedge its exposure to interest rate risk on at least 85 per cent. of its total outstanding debt liabilities for the current period to the next Periodic Review and at least 70 per cent. in the next period to the subsequent Periodic Review (each to be adjusted to the extent that the period from one Periodic Review to the next Periodic Review is greater than five years) (on a rolling basis). This figure will be kept under review with respect to market conditions and developments in regulatory methodology and practice.

(vi) Interest rate risk on floating rate liabilities may be hedged through a combination of cash balances. Authorised Investments and instruments such as interest rate swaps entered into by the Issuer.

(vii) The SWS Financing Group may manage its exposure to inflation risk through the use of index-linked instruments where it is cost effective.

(viii) Subject to the provisions of "Alternative to Counterparty Criteria (Fully Collateralised) Hedging Agreements" outlined below, the Issuer and SWS may only enter into Treasury Transactions with counterparties whose short-term, unsecured and unsubordinated debt obligations are assigned a rating by the Rating Agencies which is no less than the Minimum Short-term Rating and whose long-term, unsecured and unsubordinated debt obligations are assigned a rating by Moody's of at least A2 (the "**Moody's Minimum Long-term Rating**"), or where a guarantee is provided by an institution such that such Minimum Short-term Rating and such Moody's Minimum Long-term Rating are together met by either the counterparty or such guarantor.

(ix) Hedging Agreements must be entered into in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency – Cross Border), the 2002 Master Agreement published by ISDA or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

Hedging Agreements

The Existing Hedging Agreements

The Issuer has entered into various interest rate and currency swap transactions with the Hedge Counterparties (the Existing Hedging Agreements) in conformity with the Hedging Policy.

Tax

Each Hedge Counterparty is obliged to make payments under the Hedging Agreements without any withholding or deduction of taxes, unless required by law. If any such withholding or deduction is required by law, a Hedge Counterparty will be required to pay any such additional amount as is necessary to ensure that the net amount received by the Issuer or SWS (as applicable) will equal the full amount the Issuer or SWS (as applicable) would have received had no such deduction or withholding been required. The Issuer or SWS (as applicable) will make payments under the Hedging Agreements subject to any withholding or deduction of taxes required by law, but will not be required to pay any additional amount to any Hedge Counterparty in respect thereof. However, in either case, if a withholding or deduction is required due to any action by a taxing authority, or change in tax law after the date on which a transaction is entered into, which cannot be avoided in accordance with the relevant Hedging Agreement, the Hedge Counterparty may terminate the relevant Hedging Agreement.

Termination

The Issuer or SWS (as applicable) will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty and certain rating downgrade events affecting the Hedge Counterparty).

The Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

- a failure by the Issuer to make payment when due;
- certain insolvency events affecting the Issuer;
- illegality affecting the Hedging Agreement;
- certain tax events (including as described above);
- redemption in whole or in part of any Sub-Class of the Bonds hedged by such Treasury Transaction;

- termination of a Standstill Period (except by virtue of remedy, revocation or waiver of the relevant Event of Default giving rise to the Standstill Period) or, if earlier, an Acceleration of any Sub-Class of the Bonds hedged by such Treasury Transaction pursuant to Condition 11 (*Events of Default*); and
- (subject to the provisions described below) upon the exercise of an option to terminate a Hedging Agreement on the tenth anniversary of the effective date of the relevant Hedging Transaction or at five yearly intervals thereafter.

The Issuer may enter into Treasury Transactions with Hedge Counterparties pursuant to which each relevant Hedge Counterparty has the right to terminate the relevant Treasury Transaction on the 10th anniversary of the effective date of such Treasury Transaction and thereafter no more frequently than at five-yearly intervals provided that: (a) the relevant Hedge Counterparty gives the Issuer at least one year's prior notice in writing of its intention to exercise such right of termination; and (b) the aggregate Notional Amount and/or sterling currency amounts (as applicable) of Treasury Transactions pursuant to which Hedge Counterparties have such right of termination does not exceed 10 per cent. of RCV.

Within three months of the receipt of a notice of termination from the relevant Hedge Counterparty, the Issuer shall use all reasonable endeavours to enter into new Treasury Transaction(s) in order to replace the Treasury Transaction which is the subject of such notice of termination.

In the event that a Hedging Agreement or a Treasury Transaction is terminated, a termination payment may be due from the Issuer.

Hedge Counterparty Rating Downgrade

If a Hedge Counterparty falls below the Minimum Short-term Rating or the Moody's Minimum Long-term Rating (a "**Hedge Counterparty Downgrade**") and as a result of such Hedge Counterparty Downgrade the then current rating of the Class A Unwrapped Bonds (or, if no Class A Unwrapped Bonds are outstanding, the then current shadow rating of the Class A Wrapped Bonds or, if there are no Class A Bonds outstanding, the then current rating of the Class B Unwrapped Bonds, or if there are no Class A Bonds or Class B Unwrapped Bonds outstanding, the then current shadow rating of the Class B Wrapped Bonds) would be downgraded or placed under review for possible downgrade by any of the Rating Agencies (a "**Bond Downgrade**") and the Hedge Counterparty has not, within 30 days of being notified of such Bond Downgrade, at its own cost either:

(a) procured that its obligations with respect to the relevant Hedging Agreement are guaranteed by a third party which has a rating of no less than the relevant Minimum Short-term Rating and the Moody's Minimum Long-term Rating; or

(b) put in place an appropriate mark-to-market collateral agreement in accordance with the requirements specified in the relevant Hedging Agreement in support of its obligations under the relevant Hedging Agreement; or

(c) transferred all of its rights and obligations under the Hedging Agreement to a replacement third party which is rated no less than the Minimum Short-term Rating and the Moody's Minimum Long-term Rating; or

(d) taken such other action as the Hedge Counterparty agrees which will result in the rating (or shadow rating, as applicable) of the relevant Bonds being restored to the level they were immediately prior to the Hedge Counterparty Downgrade,

then the Issuer shall be entitled to terminate the relevant Hedging Agreement.

Alternative to Counterparty Criteria (Fully Collateralised) Hedging Agreements

Notwithstanding any provision in this Hedging Policy relating to the minimum rating requirement of a Hedge Counterparty, the Issuer or SWS may enter into Interest Rate Hedging Agreements with any Hedge Counterparty (regardless of their rating level or whether they are rated) provided that the relevant Hedge Counterparty has posted collateral at the date on which it enters into any confirmation in respect of such Interest Rate Hedging Agreement in an amount (if any) to fully cover all maximum future undiscounted net payment obligations which the Hedge Counterparty has or could have under the terms of the relevant Interest Rate Hedging Agreement (such provision only capable of being met where the maximum future undiscounted net payment obligations are objectively ascertainable as at the date of entry into the Interest Rate Hedging Agreement).

Other Transaction Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank has agreed to hold the Accounts and operate them in accordance with the instructions of the Cash Manager or Standstill Cash Manager (as applicable). The Cash Manager or Standstill Cash Manager (as applicable) will manage the Accounts on behalf of the SWS Financing Group pursuant to the Common Terms Agreement (see "*Cash Management*" above).

Registered Office Agreement

Pursuant to a registered office agreement entered into between the Issuer and M&C Corporate Services Limited on 1 January 2002 (the "**Registered Office Agreement**"), M&C Corporate Services Limited and/or Maples and Calder provide certain corporate services to the Issuer.

SW Tax Deed of Covenant

Under the terms of the SW Tax Deed of Covenant, each Obligor has given certain representations and covenants as to its tax status and to the effect that, subject to SWS's membership of the SWS VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which might reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person. Certain other companies including SWC and SWI have also represented and covenanted that they have not taken nor will take any steps which might reasonably be expected to give rise to a liability for tax for an Obligor where that tax is primarily the liability of another person.

With a view to preventing a liability to tax arising for an Obligor which is primarily the liability of another person, SWI (among others) will, under the SW Tax Deed of Covenant, incur certain obligations in relation to specified events and any change in tax residence of the Obligors. For example, the SW Tax Deed of Covenant provides that in certain circumstances where it is anticipated that there will be a change of control for tax purposes of SWSGH and therefore of the Obligors (say, as a result of the sale of shares in SWC or SWI), SWI can be required, as a condition of that sale, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in an Obligor as a result of the sale. The money deposited could then be used to pay the tax liability of the Obligor.

SWS/SWSG Loan Agreement

As at 31 March 2019, SWSG is indebted to SWS in the principal amount of £130,041,996 (the "**SWS/SWSG Loan**"). The terms of the SWS/SWSG Loan are set out in a loan agreement entered into between SWS and SWSG on the Initial Issue Date (the "**SWS/SWSG Loan Agreement**"). Interest accrues on the SWS/SWSG Loan at the rate of 7 per cent. per annum payable quarterly to the extent that SWSG has on such interest payment date received on such date a dividend from SWS (through SWSH and SWSGH) and/or a payment from SWS for a Permitted Tax Loss Transaction, in each case paid by SWS solely for the purpose of enabling SWSG to meet its scheduled payment obligations under the SWS/SWSG Loan (such dividend payment or payment for a Permitted Tax Loss Transaction a "**SWS/SWSG Debt Service Distribution**"). Interest will roll up to the extent that SWSG is not put in funds to meet its scheduled payment obligations and the unpaid amount will itself accrue interest at the relevant interest rate.

The SWS/SWSG Loan is secured by a full first ranking debenture granted by SWSG in favour of SWS on the Initial Issue Date creating, *inter alia*, a first fixed charge over SWSG's shares in SWSGH and related rights, a first fixed charge over SWSG's bank account with the Account Bank into which any SWS/SWSG Debt Service Distribution to it is paid and a first floating charge over all of SWSG's assets, revenues and undertakings. The security will not operate as a fetter on SWSG's ability to dispose of the shares in SWSGH provided that the proceeds from such disposal are sufficient to enable SWSG to repay all amounts outstanding under the SWS/SWSG Loan Agreement.

No SWS/SWSG Debt Service Distribution may be made unless, among other things: (a) in the case of a dividend payment, the dividend has been validly declared; (b) in the case of a payment for Permitted Tax Loss Transaction, the payment when made complies in all respects with the SW Tax Deed of Covenant and the CTA; (c) each payment is made against irrevocable payment instructions from SWSG directing the Account Bank to remit the proceeds of such payment on receipt by SWSG directly to an Operating Account of SWS for same day value; (d) no Event of Default is subsisting or would result from the payment; and (e) no event of default under the SWS/SWSG Loan Agreement has occurred and is continuing.

An event of default under the SWS/SWSG Loan Agreement will occur and the security granted by SWSG will become immediately enforceable if SWSG defaults on any of its payment obligations to pay interest or principal, breaches any warranty or covenant contained in the SWS/SWSG Loan Agreement or SWSG commits a TDC Breach (as defined in the SW Tax Deed of Covenant) which has a material adverse effect, becomes insolvent or if the security granted by SWSG becomes invalid.

CHAPTER 8
TERMS AND CONDITIONS OF THE BONDS

The following (other than the italicised portions) is the text of the terms and conditions which, subject to completion in accordance with the provisions of Part A of the relevant Final Terms or Pricing Supplement (as applicable), will be incorporated by reference into each Global Bond and each definitive Bond, in the latter case only if permitted by the relevant Stock Exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Bond will have endorsed thereon or attached thereto such terms and conditions. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or Pricing Supplement (as applicable) or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Bonds or on the Individual Bond Certificates relating to such Registered Bonds.

Further information with respect to each Tranche of Bonds will be given in Part A of the relevant Final Terms or Pricing Supplement (as applicable) which will provide for those aspects of these terms and conditions which are applicable to such Tranche of Bonds, including, in the case of all Sub-Classes, the terms of the relevant advance under the applicable Issuer/SWS Loan Agreement. All capitalised terms that are not defined in these terms and conditions will have the meanings given to them in Part A of the relevant Final Terms or Pricing Supplement (as applicable). References in these terms and conditions to "Bonds" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.

Southern Water Services (Finance) Limited (the "**Issuer**") has established a guaranteed bond programme (the "**Programme**") for the issuance of up to £6,000,000,000 guaranteed bonds (the "**Bonds**"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "**Series**"), and each Series comprises one or more Classes of Bonds (each, a "**Class**"). Each Class may comprise one or more sub-classes (each, a "**Sub-Class**") and each Sub-Class comprising one or more tranche (each, a "**Tranche**").

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("**Conditions**") completed by a set of final terms in relation to such Sub-Class ("**Final Terms**"). In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

Reference to the "**Final Terms**" shall refer to the Final Terms or the Pricing Supplement (in the case of Bonds admitted for trading on the PSM) (or the relevant provisions thereof) applicable to this Bond.

The Bonds are subject to and have the benefit of a trust deed dated the Initial Issue Date (as defined below) (as amended by a Deed of Amendment dated 20 May 2005, as further amended by a Second Deed of Amendment dated 13 October 2006, as further amended by a Third Deed of Amendment dated 27 February 2009 and as further amended, supplemented, restated and/or novated from time to time, the "**Bond Trust Deed**") between, among others, the Issuer and Deutsche Trustee Company Limited as trustee (the "**Bond Trustee**", which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Bonds have the benefit (to the extent applicable) of an amended and restated agency agreement (as amended, supplemented and/or restated from time to time, the "**Agency Agreement**") dated on or about 6 May 2020 (to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Agent Bank**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "**Calculation Agency Agreement**") between, *inter alia*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the "**Calculation Agent**").

On 23 July 2003 (the "**Initial Issue Date**"), the Issuer entered into a security agreement (the "**Security Agreement**") with Deutsche Trustee Company Limited as security trustee (the "**Security Trustee**"), pursuant to which the Issuer granted certain fixed and floating charge security to the Security Trustee for itself and on behalf of the other Secured Creditors (as defined below), the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, each Financial Guarantor, the Issuer, each Liquidity Facility Provider, the Hedge Counterparties, the Initial Authorised Credit Facility Arranger, the Liquidity Facility Agents, the Initial Authorised Credit Facility Agent, the Initial Authorised Credit Provider and each Authorised Credit Provider (as defined below), each Agent, the Cash Manager (other than when the Cash Manager is SWS), the Standstill Cash Manager, any Additional Secured Creditors (each as defined therein) and the Mezzanine Finance Parties (together, the "**Secured Creditors**"). On the Initial Issue Date, the Issuer entered into a security trust and intercreditor deed (the "**STID**") with, among others, the Security Trustee and other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors and the Secured Creditors agree to certain intercreditor arrangements.

On or about 6 May 2020, the Issuer has entered or will enter into an amended and restated Dealership Agreement (the "**Dealership Agreement**") with the dealers named therein (the "**Dealers**") in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds on behalf of the Issuer. In any subscriptions agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

On the Initial Issue Date, the Issuer entered into a common terms agreement (the "**Common Terms Agreement**") with, among others, the Security Trustee, pursuant to which the Issuer makes certain representations, warranties and covenants and which sets out in Schedule 7 thereof the Events of Default (as defined therein) in relation to the Bonds.

The Issuer has entered or may enter into liquidity facility agreements (together, the "**Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**Liquidity Facility Providers**") pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls (including debt service liquidity shortfalls and shortfalls in operating and maintenance expenditure of SWS).

The Issuer has entered or may enter into certain revolving credit facilities (together, the "**Authorised Credit Facilities**") with certain lenders (the "**Authorised Credit Providers**"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to the Issuer for the purpose of funding certain working capital, capital expenditure and other expenses.

The Issuer has entered or may enter into certain currency and interest rate hedging agreements (together, the "**Hedging Agreements**") with certain hedge counterparties (together the "**Hedge Counterparties**") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Issuer hedges certain of its currency and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Final Terms), the Security Agreement, the STID (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "**Security Documents**"), the Financial Guarantee Fee Letters, the Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Initial Term Facility Agreement, the Existing RCF Agreement, the 2019 Bridge Facility Agreement, the Second Artesian Term Facility Agreement, the Issuer/SWS Loan Agreements, the G&R Deeds, the Financial Guarantees, the Common Terms Agreement, the Mezzanine Facility

Agreements, the CP Agreement, any other Authorised Credit Facilities, the master definitions agreement between, among others, the Issuer and the Security Trustee dated the Initial Issue Date (as amended, supplemented and/or restated from time to time, the "**Master Definitions Agreement**"), the account bank agreement between, among others, the account bank, the Issuer and the Security Trustee (the "**Account Bank Agreement**"), the Tax Deeds of Covenant and the indemnification deed between, among others, the Financial Guarantor(s) and the Dealers dated 18 July 2003 (as amended from time to time) (the "**Indemnification Deed**"), the SWS Preference Share Deed, the SWS/SWSG Loan Agreement and any related security document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds (and together with each other agreement or instrument between SWS or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by SWS or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "**Finance Documents**".

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds).

The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the Common Terms Agreement and the relevant Final Terms and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these Conditions to a matter being "specified" means as the same may specified in the relevant Final Terms.

Terms and Conditions of the Bonds
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1 Form, Denomination and Title

(a) *Classes of Bonds*

The guaranteed unwrapped bonds will be designated as "**Class A Bonds**" or "**Class B Bonds**". Each Sub-Class will be denominated in different currencies or having different interest rates, maturity dates or other terms.

(b) *Form and Denomination*

(i) The Bonds are in bearer form ("**Bearer Bonds**") or in registered form ("**Registered Bonds**") as specified in the applicable Final Terms, serially numbered, and in the Specified Currency and the Specified Denomination(s) provided that, in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area (the "**EEA**") or in the United Kingdom (the "**UK**") or offered to the public in a Member State of the EEA or the UK in circumstances which require the publication of a prospectus under the Prospectus Regulation (Regulation (EU) 2017/1129), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Bearer Bonds may not be exchanged for Registered Bonds and vice versa. References in these Conditions to "**Bonds**" include Bearer Bonds and Registered Bonds and all Sub-Classes, classes, Tranches and Series.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided herein.

(ii) These Bonds may be zero coupon ("**Zero Coupon Bonds**"), fixed rate ("**Fixed Rate Bonds**"), floating rate ("**Floating Rate Bonds**"), index-linked ("**Indexed Bonds**"), dual currency bonds ("**Dual Currency Bonds**"), partly paid bonds ("**Partly Paid Bonds**") or Instalment Bonds (defined below) depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

(iii) Interest-bearing Bearer Bonds are serially numbered and issued with Coupons (as defined below) (and, where appropriate, a Talon (as defined below)) attached, save in the case of Zero Coupon Bond[21] in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

(iv) After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

(v) Any Bearer Bond the principal amount of which is redeemable in instalments (an "**Instalment Bond**") may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

(vi) Registered Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in respect of Registered Bonds*), each Certificate shall represent the entire holding of Registered Bonds by the same Bondholder.

(c) Title

(i) Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "**Register**"), which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement.

(ii) In these Conditions, subject as provided below, each "**Bondholder**" (in relation to a Bond, Coupon, Receipt or Talon), "**holder**" and "**Holder**" means:

(a) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be); and

(b) in relation to Registered Bond, the person in whose name a Registered Bond is registered,

as the case may be.

(iii) The expressions "Bondholder", "holder" and "Holder" include:

(a) the holders of instalment receipts (which, in relation to Class A Bonds will be "**Class A Receipts**", in relation to Class B Bonds, "**Class B Receipts**" and together, the "**Receipts**") appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "**Receiptholders**");

(b) the holders of the coupons (which, in relation to Class A Bonds will be "**Class A Coupons**", in relation to Class B Bonds, "**Class B Coupons**" and together, the "**Coupons**") (if any) appertaining to interest bearing Bonds in bearer form (the "**Couponholders**"); and

the expression "Couponholders" or "Receiptholders" includes the holders of talons in relation to Coupons or Receipts as applicable (which, in relation to Class A Bonds will be "**Class A Talons**", in relation to Class B Bonds, "Class B Talons" and together, the "**Talons**") (if any) for further coupons or receipts, as applicable attached to such Bonds (the "**Talonholders**").

(iv) Except as ordered by a court of competent jurisdiction or as required by law, the bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of. ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

(v) Bonds which are represented by a Global Bond or Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(d) *Fungible Issues of Bonds Comprising a Sub-Class*

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first interest payment, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2 Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds

(a) *Exchange of Bonds*

Subject to Condition 2(f) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Individual Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless: (i) the principal amount of Registered Bonds proposed to be transferred; and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Authorised Denominations. In the case of a transfer of part only of a holding of Registered Bonds represented by an Individual Bond Certificate, a new Individual Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Bond Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Bonds*

In the case of an exercise of an Issuer’s or Bondholders’ option in respect of, or a partial redemption of, a holding of Registered Bonds represented by an Individual Bond Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed.

In the case of a partial exercise of an option resulting in Registered Bonds of the same holding having different terms, separate Certificates shall be issued in respect of those Bonds of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the

Registrar or any Transfer Agent. In the case of a transfer of Registered Bonds to a person who is already a holder of Registered Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Individual Bond Certificates*

Each new Individual Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Individual Bond Certificate to such address as may be specified in such request or form of transfer.

For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the business day (as defined below) following the due date for such payment.

(e) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(f) *Closed Periods*

No Bondholder may require the transfer of a Registered Bond to be registered: (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Bond; (ii) during the period of 30 days prior to any date on which Bonds may be called for redemption by the Issuer at its option pursuant to Condition 8(b) (*Optional Redemption*); (iii) after any such Bond has been called for redemption; or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status of the Bonds

(a) *Status of Class A Bonds*

This Condition 3(a) (*Status of Class A Bonds*) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*) and rank *pari passu* without any preference among themselves.

(b) *Status of Class B Bonds*

This Condition 3(b) (*Status of Class B Bonds*) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), are subordinated to the Class A Bonds, Class A

Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves.

(c) Security Trustee Not Responsible for Monitoring Compliance

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the Finance Documents or any ancillary documents, the Security Trustee will act in accordance with its sole discretion (where granted such right) or as directed, requested or instructed by or subject to the agreement of the Majority Creditors or, where appropriate, the Super-Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

The Security Trustee shall not be responsible for monitoring compliance by SWS with any of its obligations under the Finance Documents to which it is a party except by means of receipt from SWS of certificates of compliance which SWS has covenanted to deliver to the Security Trustee pursuant to the provisions of the Common Terms Agreement and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors in which case it will be bound to act on such instructions in accordance with the STID. The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The Security Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information (as defined in the Master Definitions Agreement) as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of SWS within 60 days of 30 September and 120 days of 31 March, respectively.

In addition, each Guarantor has covenanted to provide the Security Trustee with certain additional information (as set out in Schedule 5, Part 1 "Information Covenants" of the Common Terms Agreement). Such information may be published on a website designated by the relevant Guarantor and the Security Trustee. Any Bondholder who provides sufficient evidence of identity may obtain the current password to such website upon application to the Principal Paying Agent or the Registrar (as applicable).

In the event the relevant website cannot be accessed or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

(d) The Substitution of the Issuer following a Substitution Event

Upon the delivery of a Deed of Substitution Notice (as defined below) to the Bond Trustee, the Issuer shall be immediately, automatically and irrevocably released and relieved of all of its obligations under the Bonds of all Series issued on or after 6 May 2020 (the "**Substituted Bonds**"), the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds (but without prejudice to any obligations which may have accrued prior to that time) and it shall be immediately, automatically and irrevocably succeeded by the UK Issuer.

A "**Deed of Substitution Notice**" shall be a written notice signed by any two Directors of the Issuer or any two Directors of a public limited company incorporated in England and Wales as a subsidiary of SWS (the "**UK Issuer**" and, upon delivery to the Bond Trustee of a Deed of Release Notice, the "**Issuer**" in respect of the Substituted Bonds) and such notice shall certify to the Bond Trustee that (i) a Substitution Event (as defined below) has occurred, (ii) the UK Issuer has obtained all necessary governmental and regulatory approvals and consents necessary for its assumption of liability in place of the Issuer and its performance of the Issuer's obligations under the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds, (iii) such approvals and consents are at the time of substitution in full force and effect, (iv) at least two of the Rating Agencies have confirmed in writing that the substitution of the UK Issuer will not result in a downgrading of the then current credit rating of such Rating Agencies applicable to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds or the current shadow credit rating of the Wrapped Bonds and (v) the UK Issuer is a single purpose company similar to, and with like constitution as, and having substantially the same restrictions and prohibitions on its activities and operations as the Issuer and satisfies the SPV Criteria. The Bond Trustee shall accept, without further investigation or enquiry and without liability to any persons, such notice as sufficient evidence of the occurrence of a Substitution Event and any other matters therein, in which event it shall be conclusive and binding on the Bond Trustee, the Issuer, the UK Issuer, the Bondholders and the Couponholders.

A "**Substitution Event**" shall be deemed to occur upon (x) the substitution of the UK Issuer in place of the Issuer as the issuer, borrower and/or principal debtor in respect of the Class A Bonds (other than the Substituted Bonds), PP Finance Documents and/or DSRLF Finance Documents actually occurring pursuant to a Substitution Proposal and (y) the assignment by the Issuer of the IBLAs to the UK Issuer actually occurring. Any capitalised term used but not defined in the definition of Substitution Event shall have the meaning given to that term in the Master Definitions Agreement.

None of the Issuer, the UK Issuer or the Bond Trustee will be required to execute or deliver or provide any other document, deed, notice or certification in relation to any release, succession or accession pursuant to this Condition 3(d) but, if the Issuer or the UK Issuer so requests, the Bond Trustee shall, at the cost and expense of the Issuer, enter into any documentation in relation to the release of the Issuer (or succession of the UK Issuer) which either the Issuer or the UK Issuer reasonably considers to be necessary or desirable to evidence the release of the Issuer from its obligations the Substituted Bonds, the Bond Trust Deed (in relation to the Substituted Bonds only) and the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds or corresponding accession of the UK Issuer; provided that, the Bond Trustee shall not be obliged to enter into any documentation which, in the opinion of the Bond Trustee, would have the effect of (i) exposing the Bond Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties of the Bond Trustee under the Bond Trust Deed, the Agency Agreement, the Substituted Bonds, the Receipts relating to the Substituted Bonds and the Coupons relating to the Substituted Bonds.

Notice of the release of the Issuer (and the succession of the UK Issuer) pursuant to this Condition 3 and the Bond Trust Deed shall forthwith be given by the Issuer to Bondholders in accordance with Condition 17 (*Notices*).

4 Security, Priority and Relationship with Secured Creditors

(a) *Guarantee and Security*

Under the Security Agreement, each of SWS Holdings Limited ("**SWSH**") and SWS Group Holdings Limited ("**SWSGH**") guarantees the obligations of each other Obligor under the Finance Documents and SWS and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee for itself and on behalf of the Secured Creditors (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders) and secures such obligations upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of SWS, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the Act (as defined below). There is no intention to create further security for the benefit of the holders of Bonds issued after the Initial Issue Date. All Bonds issued by the Issuer under the Programme and any additional creditor of the Issuer acceding to the STID will share in the security (the "**Security**") constituted by the Security Documents.

In these Conditions:

the "**Act**" means the United Kingdom Water Industry Act 1991 (as amended);

"**Instrument of Appointment**" means the Instrument of Appointment, dated 1989 as amended under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time; and

"**Obligors**" means SWS, SWSGH, SWSH and the Issuer.

(b) *Relationship Among Bondholders and with Other Secured Creditors*

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*).

The STID provides that the Security Trustee (except in relation to its Reserved Matters and Entrenched Rights (each as defined in the Master Definitions Agreement) and subject to certain exceptions) will act on instructions of the Majority Creditors (including the Bond Trustee as trustee for and representative of the Bondholders and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors, enforce its rights with respect to the Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(d) *Application After Enforcement*

After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Accounts (other than the Excluded Accounts) (each as defined in the Master Definitions Agreement) to make payments in accordance with the Payment Priorities (as set out in the Common Terms Agreement).

(e) *Bond Trustee and Security Trustee Not Liable for Security*

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5 Issuer Covenants

So long as any of the Bonds remain outstanding, the Issuer has agreed to comply with the covenants as set out in Schedule 5 to the Common Terms Agreement.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6 Interest and Other Calculations

(a) *Interest Rate and Accrual*

Each Bond (unless specified in the relevant Final Terms to be a Zero Coupon Bond) bears interest on its Principal Amount Outstanding as defined below (or as otherwise specified in the relevant Final Terms) from the Interest Commencement Date (as defined below) at the Interest Rate (as defined below), such interest being payable in arrear (unless otherwise specified in the relevant Final Terms) on each Interest Payment Date (as defined below).

The amount of interest payable shall be determined in accordance with this Condition 6(n) (*Calculations*).

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 6(s) (*Definitions*)).

In the case of interest on Class B Bonds only, if, on any Interest Payment Date, prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Account) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of:

(i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 12 to the Common Terms Agreement, sufficient funds available to pay such deferred amounts (including any interest accrued thereon);

(ii) the date on which the Class A Debt has been paid in full; and

(iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

(b) Business Day Convention

If any date referred to in these Conditions or the relevant Final Terms is specified to be subject to adjustment in accordance with a Business Day Convention (as specified in the *Pro Forma Final Terms*) and would otherwise fall on a day which is not a Business Day (as defined below), then if the Business Day Convention specified in the relevant Final Terms is:

(i) the "**Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day;

(ii) the "**Modified Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(iii) the "**Preceding Business Day Convention**", such date shall be brought forward to the immediately preceding Business Day.

(c) Floating Rate Bonds

This Condition 6(c) (*Floating Rate Bonds*) is applicable only if the relevant Final Terms specify the Bonds as Floating Rate Bonds. The Interest Rate in respect of Floating Rate Bonds for each Interest Period shall be determined in the manner specified herein and the provisions below relating to either (i) Screen Rate Determination or (ii) ISDA Determination shall apply, depending upon which is specified the in the relevant Final Terms.

(i) Screen Rate Determination (other than for Floating Rate Bonds[22] which reference SONIA)

(a) If "**Screen Rate Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, and the Reference Rate is not SONIA, the Interest Rate applicable to the Bonds for each Interest Period will, subject as provided below, be either:

(A) the offered quotation if the Page displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate; or

(B) the arithmetic mean of the offered quotations (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the relevant Page as at the Relevant Time on the Interest Determination Date in question as determined by the Agent Bank (or the Calculation Agent, if applicable).

(b) If, in the case of Condition 6(c)(i)(a)(A) above, such rate does not appear on that Page or, in the case of Condition 6(c)(i)(a)(B) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(s) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined below) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

(B) fewer than two such quotations are provided, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(s) (*Definitions*)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(s) (*Definitions*)).

(c) If, in the case of Condition 6(c)(i)(a)(B) above, five or more of such offered quotations are available on the relevant Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent Bank (or the Calculation Agent, if applicable) for the purpose of determining the arithmetic mean of such offered quotations.

(ii) Screen Rate Determination (for Floating Rate Bonds Which Reference SONIA)

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined, and the Reference Rate specified in the applicable Final Terms is SONIA, the Rate of Interest for each Interest Period will be the Compounded Daily SONIA as determined by the Calculation Agent plus or minus the Margin (as specified in the applicable Final Terms).

"**Compounded Daily SONIA**", with respect to each Interest Period, will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fourth decimal place, with 0.00005% being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_{i-pLBD}\times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

"**d**" is the number of calendar days in the relevant Interest Period;

"**d_o**" is the number of London Banking Days in the relevant Interest Period;

"**i**" is a series of whole numbers from one to do, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period to, and including, the last London Banking Day in the relevant Interest Period which falls immediately prior to the next Interest Payment Date;

"**London Banking Day**" or "**LBD**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"$\mathbf{n_i}$" for any London Banking Day "i", means the number of calendar days from and including such London Banking Day "i" up to but excluding the following London Banking Day;

"**p**" is the number of London Banking Days included in the Reference Look Back Period, as specified in the applicable Final Terms provided that "p" shall not be less than three London Banking Days at any time and shall not be less than five London Banking Days without prior written approval of the Agent Bank (or Calculation Agent).

"**Reference Look Back Period**" is as specified in the applicable Final Terms.

"**SONIA Reference Period**" means, in respect of an Interest Period, the period from and including the date falling "p" London Banking Days prior to the first day of such Interest Period and ending on, but excluding, the date falling "p" London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Banking Days prior to such earlier date, if any, on which the Bonds become due and payable);

"**SONIA Reference Rate**" means, in respect of any London Banking Day, a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Page or, if the Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

"**SONIAi-pLBD**" means, in respect of any London Banking Day, falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day which is "p" London Banking Days prior to the relevant London Banking Day "i".

For the avoidance of doubt, the formula for the calculation of Compounded Daily SONIA only compounds the SONIA Reference Rate in respect of any London Banking Day. The SONIA Reference Rate applied to a day that is a non-London Banking Day will be taken by applying the SONIA Reference Rate for the previous London Banking Day but without compounding.

If, subject to Condition 6(j) (*Benchmark Discontinuation*), in respect of any London Banking Day in the relevant SONIA Reference Period, the Calculation Agent determines that the SONIA Reference Rate is not available on the Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be:

(a) (i) the Bank of England's Bank Rate (the "Bank Rate") prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or

(b) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, the SONIA Reference Rate published on the Page (or otherwise published by the relevant authorised distributors) for the first preceding London

Banking Day on which the SONIA Reference Rate was published on the Page (or otherwise published by the relevant authorised distributors).

Notwithstanding the paragraphs above, but subject to Condition 6(j) (*Benchmark Discontinuation*), if the Bank of England publishes guidance as to: (i) how the SONIA Reference Rate is to be determined; or (ii) any rate that is to replace the SONIA Reference Rate, the Agent Bank (or the Calculation Agent, if applicable) shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine SONIA for the purpose of the Bonds for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors. To the extent that any amendments or modifications to the Conditions, the Bond Trust Deed or the Agency Agreement are required in order for the Agent Bank (or the Calculation Agent, if applicable) to follow such guidance in order to determine the Interest Rate, the Agent Bank (or the Calculation Agent, if applicable) shall have no obligation to act until such amendments or modifications have been made in accordance with the Conditions, the Bond Trust Deed and the Agency Agreement.

In the event that the Interest Rate cannot be determined in accordance with the foregoing provisions, the Interest Rate shall be that determined as at the last preceding Interest Determination Date.

If the Bonds either: (a) become due and payable in accordance with Condition 11 (*Events of Default*); or (b) are redeemed before the Maturity Date specified in the applicable Final Terms on a date which is not an Interest Payment Date in accordance with Condition 8 (*Redemption, Purchase and Cancellation*) then, for such Bonds (and in the case of limb (b) of this paragraph, only such Bonds which are so redeemed), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the Final Terms, be deemed to be the date falling four London Banking Days prior to: (i) the date on which the Bonds became due and payable; or (ii) the date fixed for such redemption, as applicable (with corresponding adjustments being deemed to be made to the Compounded Daily SONIA formula); **and** the Interest Rate on the Bonds shall, for so long as the Bonds remain outstanding, be that determined on such date.

(iii) ISDA Determination for Floating Rate Bonds

If "**ISDA Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(b) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(s) (*Definitions*)); and

(c) the relevant Reset Date (as defined in the ISDA Definitions) is either: (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest

Period; or (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period

provided, however, that if the Agent Bank (or Calculation Agent, if applicable) is unable to determine a rate in accordance with the above provisions in relation to any Interest Period, then the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the sum of the Margin (if applicable) and the rate last determined in relation to the Bonds in respect of the immediately preceding Interest Period.

(d) *Fixed Rate Bonds*

This Condition 6(d) (*Fixed Rate Bonds*) is applicable only if the relevant Final Terms specify the Bonds as Fixed Rate Bonds.

Each Fixed Rate Bond bears interest on its outstanding nominal amount at the Interest Rate per annum (expressed as a percentage) specified in the relevant Final Terms for each Interest Period, such interest being payable in arrear on each Interest Payment Date.

(e) *Indexed Bonds*

This Condition 6(e) (*Indexed Bonds*) is applicable only if the relevant Final Terms specify the Bonds as Indexed Bonds.

Payments of principal on, and the interest payable in respect of, the Bonds will be subject to adjustment for indexation and to the extent set out in Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable. The Interest Rate applicable to the Bonds for each Interest Period will be at the rate specified in the relevant Final Terms.

(f) *Zero Coupon Bonds*

Where a Bond, the basis of Interest of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Bond. As from the Maturity Date, the Interest Rate for any overdue principal of such a Bond shall be a rate per annum (expressed as a percentage) equal to the Accrual Yield (as described in Condition 8(e) (*Early Redemption of Zero Coupon Bonds*).

(g) *Interest on Dual Currency Bonds*

The rate or amount of interest payable in respect of Dual Currency Bonds shall be determined in the manner specified in the applicable Final Terms.

(h) *Interest on Partly Paid Bonds*

In the case of Partly Paid Bonds (other than Partly Paid Bonds which are Zero Coupon Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Bonds and otherwise as specified in the applicable Final Terms.

(i) *Linear Interpolation*

If "**Linear Interpolation**" is specified to be applicable in the relevant Final Terms, the Interest Rate for such Interest Period shall be calculated by the Agent Bank (or the Calculation Agent, if applicable) by straight line linear interpolation by reference to two rates based on the Relevant Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the applicable Maturity Date occurred on a date at the end of a period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Maturity Date occurred on a date at the end of a period of time for which rates are available next longer than the length of the relevant Interest Period, provided, however, that, if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent Bank (or the Calculation Agent, if applicable) shall determine such rate at such time and by reference to such sources as the Issuer determines appropriate.

(j) *Benchmark Discontinuation*

(i) Independent Adviser

(a) If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall notify the Agent Bank (or the Calculation Agent, as applicable) and shall use its reasonable endeavours to select and appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 6(j)(ii) (*Successor Rate or Alternative Rate*) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 6(j)(iv) (*Benchmark Amendments*). In making such determination, the Independent Adviser appointed pursuant to this Condition 6(j)(i) (*Independent Adviser*) shall act in good faith as an expert. In the absence of bad faith, fraud or negligence, the Independent Adviser shall have no liability whatsoever to the Issuer, the Bond Trustee, the Paying Agents, the Bondholders or the Couponholders for any determination made by it, pursuant to this Condition 6(j) (*Benchmark Discontinuation*).

(b) If: (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate and, in either case, an Adjustment Spread (if any) and any Benchmark Amendments, in accordance with this Condition 6(j)(i) (*Independent Adviser*) and notify the Agent Bank (or Calculation Agent, as applicable) of such determination prior to the date which is ten[23] business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Bonds in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin, Maximum Interest Rate or Minimum Interest Rate is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, Maximum Interest Rate or Minimum Interest Rate relating to the relevant Interest Period shall be substituted in place of the Margin, Maximum Interest Rate or Minimum Interest Rate relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 6(j)(i) (*Independent Adviser*).

[23] CC – DB's preference given their own internal operational needs and the expected high volume of these amends is for this to be 10 BDs.

(ii) Successor Rate or Alternative Rate

If the Independent Adviser, determines and notifies the Agent Bank (or Calculation Agent, as applicable) prior to the date which is ten business days prior to the next Interest Determination Date that:

(a) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(j) (*Benchmark Discontinuation*)); or

(b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(j) (*Benchmark Discontinuation*)).

(iii) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) Benchmark Amendments

(a) If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 6(j) (*Benchmark Discontinuation*) and the Independent Adviser, determines: (i) that amendments to these Conditions and/or the Bond Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (provided that the amendments do not, without the consent of the Agent Bank (or Calculation Agent, if applicable) have the effect of imposing more onerous obligations upon it or exposing it to any additional duties, responsibilities or liabilities or reducing or amending the protective provisions attached to it) (such amendments, the "**Benchmark Amendments**"); and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 6(j)(v) (*Notices*), without any requirement for the consent or approval of Bondholders, vary these Conditions and/or the Bond Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

(b) At the request of the Issuer, but subject to receipt by the Bond Trustee of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 6(j)(v) (*Notices*), the Bond Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Bondholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Bond Trust Deed), and for the avoidance of doubt, the Bond Trustee shall not be liable to any party for any consequences thereof, provided that the Bond Trustee shall not be obliged so to concur if in the opinion of the Bond Trustee doing so would impose more onerous obligations upon it, increase its duties or responsibilities, or expose it to any additional liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction, or reduce or amend the protective provisions afforded to the Bond Trustee in these Conditions or the Bond Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

(c) In connection with any such variation in accordance with this Condition 6(j)(vi) (*Benchmark Amendments*), the Issuer shall comply with the rules of any stock exchange on which the Bonds are for the time being listed or admitted to trading.

(v) Notices

(a) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 6(j)(vi) (*Benchmark Amendments*) will be notified promptly by the Issuer to the Bond Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 17 (*Notices*), the Bondholders. Such notice shall be irrevocable and shall specify the effective date, which shall be not less than ten Business Days prior to the next Interest Determination Date of the Benchmark Amendments, if any.

(b) No later than notifying the Bond Trustee of the same, the Issuer shall deliver to the Bond Trustee a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 6(j)(vi) (*Benchmark Amendments*); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

(c) Each of the Bond Trustee, the Agent Bank, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Bond Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Bond Trustee, the Agent Bank, the Calculation Agent, the Paying Agents and the Bondholders.

(vi) Survival of the Original Reference Rate

(a) Without prejudice to the obligations of the Issuer under Condition 6(j)(vi)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 6(c)(i) (*Screen Rate Determination (other than for Floating Rate Bonds which reference SONIA*) and Condition 6(c)(ii) (*Screen Rate Determination (for Floating Rate Bonds which reference SONIA*) will continue to apply unless and until the Issuer determines that a Benchmark Event has occurred.

(b) Notwithstanding any other provision of this Condition 6(j) (*Benchmark Discontinuation*), if in the Agent Bank's (or the Calculation Agent's, if applicable) opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 6(j) (*Benchmark Discontinuation*), the

Agent Bank (or the Calculation Agent, if applicable) shall promptly notify the Issuer thereof and the Issuer shall direct the Agent Bank (or the Calculation Agent, if applicable) in writing as to which alternative course of action to adopt. If the Agent Bank (or the Calculation Agent, if applicable) is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Agent Bank (or the Calculation Agent, if applicable) shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(vii) Definitions

As used in this Condition 6(j) (Benchmark Discontinuation):

"**Adjustment Spread**" means either: (a) a spread (which may be positive, negative or zero); or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(b) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(c) (if the Independent Adviser determines that no such spread is customarily applied) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 6(j)(ii) (*Successor Rate or Alternative Rate*) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Bonds.

"**Benchmark Amendments**" has the meaning given to it in Condition 6(j)(iv) (*Benchmark Amendments*).

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least five business days or ceasing to exist; or

(b) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Bonds; or

(e) the administrator of that Original Reference Rate or its supervisor publicly announces that such administrator is insolvent; or

(f) it has become unlawful for any Paying Agent, the Agent Bank, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Bondholder using the Original Reference Rate,

provided that in the case of sub-paragraphs (b), (c), (d) and (e) above, the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise selected and appointed by the Issuer at its own cost under Condition 6(j)(i) (*Independent Adviser*).

"**Original Reference Rate**" means the originally specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Bonds.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of: (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates; (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); (iii) a group of the aforementioned central banks or other supervisory authorities; or (iv) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(k) Accrual of Interest:

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgement) at the Rate of Interest in the manner provided in this Condition 6 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).

(l) *Maximum Interest Rate, Minimum Interest Rate, Maximum/Minimum Redemption Amounts and Rounding*

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(m) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

(i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);

(ii) all figures will be rounded to seven significant figures (with halves being rounded up); and

(iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "**unit**" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(n) *Calculations*

The amount of interest payable per Calculation Amount (as defined in the relevant Final Terms) in respect of any Bond for each Interest Period shall be equal to the product of: (1) the Interest Rate, (2) the Calculation Amount specified in the relevant Final Terms, and (3) the Day Count Fraction (as defined in Condition 6(s) (*Definitions*)) and, in the case of Indexed Bonds only, adjusted according to the indexation set out in Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable, unless an Interest Amount is specified in respect of such period in the relevant Final Terms, in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Interest Period will equal such Interest Amount.

(o) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

Subject to Condition 6(j) (*Benchmark Discontinuation*), as soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "**Instalment Amount**"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the amount of interest payable (the "**Interest Amounts**") in respect of each Specified Denomination of Bonds for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than:

(i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount (if the Reference Rate is not SONIA); or

(ii) the Interest Payment Date for the relevant Interest Period in the case of notification of a Rate of Interest and Interest Amount (if the Reference Rate is SONIA); or

(iii) in all other cases, the fourth Business Day after such determination.

The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period pursuant to Condition 6(b)(ii) (*Business Day Convention*). Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Class of Bonds is for the time being listed or by which it has been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*).

If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(p) Agent Bank, Calculation Agent and Reference Banks

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(q) [24]Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6 (*Interest and Other*

[24] CC – DB are aware that this is wording which has previously been in the document, however it is not appropriate to retain this clause in a world of Risk Free Rates where interest rates are not a simple number available on a screen. DB ask for this to be deleted where programmes are updated with provisions for IBOR discontinuation and calculations based on SONIA or other RFRs. All of the agents are appointed by the Issuer at the outset of the deal. It is the responsibility of the Issuer to either perform obligations themselves or to appoint someone (an agent) to do so on their behalf. It is not appropriate for the Bond Trustee to make these determinations and they are not able to make their determinations on the more complex RFR based calculations. The Bond Trustee would not, in any circumstances, make these determinations itself and would always be appointing an agent to do so on its behalf (perhaps having sought instructions from Bondholders as to the terms of that appointment or identity of the agent). There is therefore no obvious logistical cost or timing advantage compared to the Issuer appointing a replacement agent itself and controlling the process. With RFRs, the Issuer should bear this responsibly and not the Bond Trustee.

Calculations) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the absence of wilful default, negligence, bad faith or manifest error) be binding on the Issuer, SWS, SWSH, SWSGH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, SWS, SWSH, SWSGH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(r) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day; and/or

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the Relevant Currency (which in the case of a payment in Sterling shall be London) and in each (if any) additional city or cities specified in the relevant Final Terms; and/or

(iii) a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/Actual (ICMA)**" is specified:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of;

(i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and

(ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

(ii) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366, and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is specified, the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is specified, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (\mathrm{Y2} - \mathrm{Y1})] + [30 \times (\mathrm{M2} - \mathrm{M1})] + (\mathrm{D2} - \mathrm{D1})}{360}$$

where:

(a) "**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

(b) "**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(c) "**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

(d) "**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(e) "**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

(f) "**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (\mathrm{Y2} - \mathrm{Y1})] + [30 \times (\mathrm{M2} - \mathrm{M1})] + (\mathrm{D2} - \mathrm{D1})}{360}$$

where:

(a) "**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

(b) "**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(c) "**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

(d) "**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(e) "**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

(f) "**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

(a) "**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

(b) "**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(c) "**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

(d) "**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

(e) "**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

(f) "**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

"**EURIBOR**" means the Euro Interbank Offered Rate as provided by the European Money Markets Institute (the "**EMMI**") at the Relevant Time for such period as specified in the relevant Final Terms;

"**euro**" means the lawful currency of the Participating Member States;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified: (i) the first day of such Interest Period if the Specified Currency is sterling and the Reference Rate is not SONIA or (ii) the day falling two business days in London prior to the first day of such Interest Period if the Specified Currency is not sterling; or (iii) if the specified currency is sterling, the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined below) specified in the relevant Final Terms); or (iv) the date falling four business days in London prior to the Interest Payment Date for the relevant Interest Period (or the date falling four business days in London prior to such earlier date, if any, on which the Bonds become due and payable) if the Reference Rate specified is SONIA;

"**Interest Payment Date**" means the date(s) specified as such in the relevant Final Terms;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified as such in the relevant Final Terms;

"**LIBOR**" means the London Interbank Offered Rate as provided by ICE Benchmark Administration Limited ("**IBA**") (or any successor) at the Relevant Time for such period as specified in the relevant Final Terms;

"**Margin**" means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms;

"**Maturity Date**" means the date specified in the relevant Final Terms as the final date on which the principal amount of the Bond is due and payable;

"**Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms as a Reference Rate (if the Reference Rate is not SONIA) or for the purpose of providing the SONIA Reference Rate (if the Reference Rate is SONIA), or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate or the SONIA Reference Rate, as applicable;

"**Participating Member State**" means a member state of the European Union that adopts the single currency "euro" as its lawful currency in accordance with the legislation of the European Union relating to the Economic and Monetary Union, and "**Participating Member States**" means all of them;

"**Principal Amount Outstanding**" means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

"**Redemption Amount**" means the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms;

"**Reference Banks**" means the institutions specified as such or, if none, four major banks selected by the Issuer (or Quotation agent on its behalf) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Issuer (or Quotation agent on its behalf), in its sole and absolute discretion;

"**Reference Rate**" means EURIBOR, LIBOR or SONIA, as may be specified in the applicable Final Terms;

"**Relevant Currency**" means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

"**Relevant Date**" means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable) has been received by the Principal Paying Agent or the Registrar, as the case may be. and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

"**Relevant Financial Centre**" means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Issuer (or the Quotation Agent, if applicable);

"**Relevant Rate**" means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms);

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

"**Representative Amount**" means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Specified Duration**" means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Period;

"**TARGET Settlement Day**" means any day on which the TARGET system is open; and

"**TARGET system**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) system which was launched on 19 November 2007 or any successor thereto.

7 Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specify the Bonds as Indexed Bonds. Conditions 7(a) to 7(e) (inclusive) shall only apply if UK Retail Price Index is specified in the applicable Final Terms. Conditions 7(f) to 7(j) (inclusive) shall only apply if UK Consumer Price Index or UK Consumer Price Index including owner occupiers' housing costs is specified in the applicable Final Terms.

(a) Definitions (RPI)

"**affiliate**" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "**control**" means control as defined in the Companies Act 1985;

"**Base Index Figure**" means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms;

"**Index**" or "**Index Figure**" means, subject as provided in Condition 7(c)(i) (*Change in base*), if UK Retail Price Index is specified in the applicable Final Terms, the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the "Index Figure applicable" to a particular Indexation Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (*Cessation of or Fundamental Changes to the Index*), and if "3 months lag" is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$\mathrm{IFA} = \mathrm{RPI}_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\mathrm{RPI}_{m-2} - \mathrm{RPI}_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"**Indexation Calculation Date**" means any Interest Payment Date, the Maturity Date or any other date on which principal falls due;

"**IFA**" means the Index Figure applicable;

"$\mathbf{RPI_{m-3}}$" means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

"$\mathbf{RPI_{m-2}}$" means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the "**Index Figure applicable**" to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (Cessation *of or Fundamental Changes to the Index*), and if "8 months lag" is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$\mathrm{IFA} = \mathrm{RPI}_{m-8} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\mathrm{RPI}_{m-7} - \mathrm{RPI}_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"**IFA**" means the Index Figure applicable;

"$\mathbf{RPI_{m-8}}$" means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

"$\mathbf{RPI_{m-7}}$" means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

If the Index is replaced, the Issuer will describe the replacement Index in a supplementary prospectus;

"**Index Ratio**" applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure;

"**Limited Index Ratio**" means: (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that: (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"**Limited Indexation Month**" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"**Limited Indexed Bonds**" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies; and

"**Reference Gilt**" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an "**Indexation Adviser**").

(b) *Application of the Index Ratio (RPI)*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(m) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index (RPI)*

(i) **Change in base**

If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "**Index**" and "**Index Figure**" in Condition 7(a) (*Definitions (RPI)*) shall be deemed to refer to the new date, month or year in substitution for January 1987 (or, as the case may be, to such other date, month or year as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Initial Issue Date 178.2) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) **Delay in publication of Index**

If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the "**relevant month**") before the month in which a payment is due to be made is not published on or before the fourteenth business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes (RPI)*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) Cessation of or Fundamental Changes to the Index (RPI)

(i) If: (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

(ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i) above, a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

(f) *Definitions (CPI and CPIH)*

"**Base Index Figure**" means (subject to Condition 7(i) (*Change in circumstance affecting the Index (CPI and CPIH)*) the base index figure as specified in the relevant Final Terms;

"**Index**" or "**Index Figure**" means (subject to Condition 7(i) (*Change in circumstance affecting the Index (CPI and CPIH)*) (i) if UK Consumer Price Index is specified in the applicable Final Terms, the Consumer Price Index ("**CPI**") (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Matched Index Reference Gilt (if any) or (ii) if UK Consumer Price Index including owner occupiers' housing costs is specified in the applicable Final Terms, the CPI including owner occupiers' housing costs ("C**PIH**") (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Matched Index Reference Gilt (if any).

Where CPI is specified as the Index or Index Figure in the applicable Final Terms, any reference to the Index Figure applicable to any day ("**d**") in any month ("**m**") shall (subject to Condition 7(i) (*Change in circumstance affecting the Index (CPI and CPIH)*) be calculated in accordance with the following formula:

$$IFA = CPI_{m-t} + \frac{nbd}{q_m} x \left(CPI_{m-(t-1)} - CPI_{m-t}\right)$$

Where:

"**IFA**" means the Index Figure applicable;

"**CPI_{m-t}**" means the Index Figure for the first day of the month (which means the Index Figure published during such month) that is t months prior to the month in which an Interest Payment Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

"**nbd**" means the actual number of days from and excluding the first day of month m to but including day d and, for the avoidance of doubt, where d is the first day of month m, nbd shall be equal to zero;

"**q_m**" means the actual number of days in month m;

Where CPIH is specified as the Index or Index Figure in the applicable Final Terms, any reference to the Index Figure applicable to any day ("d") in any month ("**m**") shall (subject to Condition 7(i) (*Change in circumstance affecting the Index (CPI and CPIH)*) be calculated in accordance with the following formula:

$$IFA = CPIH_{m-t} + \frac{nbd}{q_m} x \left(CPIH_{m-(t-1)} - CPIH_{m-t}\right)$$

Where:

"**$CPIH_{m-t}$**" means the Index Figure for the first day of the month (which means the Index Figure published during such month) that is t months prior to the month in which an Interest Payment Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

"**nbd**" means the actual number of days from and excluding the first day of month m to but including day d and, for the avoidance of doubt, where d is the first day of month m, nbd shall be equal to zero;

"**q_m**" means the actual number of days in month m;

"**Index Ratio**" applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure and rounded to the nearest fifth decimal place;

"**Limited Index Ratio**" means: (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that: (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"**Limited Indexation Month**" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"**Limited Indexed Bonds**" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

"**Matched Index Reference Gilt**" means a Reference Gilt which is linked to either (i) CPI if UK Consumer Price Index is specified in the applicable Final Terms or (ii) CPIH if UK Consumer Price Index including owner occupiers' housing costs is specified in the applicable Final Terms; and

"**Reference Gilt**" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter (or if not specified in the relevant Final Terms) the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange whose average maturity and indexation terms most closely matches that of the Bonds as a gilt-edged market maker or other adviser selected by the Issuer (an "**Indexation Adviser**") shall determine to be appropriate, provided that if no such index-linked sterling obligation exists which has the same indexation terms, the Indexation Adviser shall consider obligations with the most economically similar indexation terms.

(g) *Application of the Index Ratio (CPI and CPIH)*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in or determined in accordance with these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month or date, as the case may be, in or on which such payment falls to be made and rounded in accordance with Condition 6(m) (*Rounding*).

(h) *Changes in Circumstances Affecting the Index (CPI and CPIH)*

(i) **Change in base**

If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect or, as the case may be, from the first date from and including that on which such substitution takes effect (1) the definition of "**Index**" and "**Index Figure**" in Condition 7(i) (*Definitions (CPI and CPIH)*) shall be deemed to refer to the new date, month or year as applicable in substitution for 2015 (or, as the case may be, to such other date, month or year as applicable as may have been substituted therefor) and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.

(ii) Delay in publication of Index

If the Index Figure relating to any month (the "**relevant month**") which is required to be taken into account for the purposes of determining the Index Figure for any date (the "**relevant figure**") has not been published on or before the 14th business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable for the relevant calculation month shall be (1) such substitute index figure (if any) as the Bond Trustee considers (acting solely on the advice of the Indexation Adviser) to have been published by the Bank of England for the purposes of indexation of payments on the relevant Matched Index Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to this Condition 7(h)(i)) before the date for payment.

(i) Application of Changes (CPI and CPIH):

If (1) an Index Figure having been applied pursuant to paragraph (ii) above, the Index Figure relating to the relevant month, is subsequently published while a Bond is still outstanding; or (2) within 30 days of publication, the National Office of Statistics (or any successor entity which publishes the Index) corrects the level of the Index to remedy a manifest error in its original publication, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Substitute Index Figure applicable by virtue of paragraph (ii) above or the Index Figure as originally published, as applicable, above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(j) Cessation of or Fundamental Changes to the Index (CPI and CPIH)

(iii) If: (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee, acting solely on the advice of the Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

(iv) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i) above, a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of the Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(v) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

8 Redemption, Purchase and Cancellation

(a) Partial and Final Redemption

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms as having no fixed maturity date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Final Terms plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable.

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action after the termination of a Standstill Period, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 12 to the Common Terms Agreement, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

(b) Optional Redemption

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a pro rata basis only) on any Interest Payment Date at their Redemption Amount, provided that Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms, as follows:

(i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of: (a) their Principal Amount Outstanding; and (b) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 page 5 or any replacement therefor; "**Reference Date**" means the date which is two business days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

(ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Final Terms) be the higher of: (a) the Principal Amount Outstanding; and (b) the sum of (x) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, (y) the Applicable Uplift, if any, specified in the applicable Final Terms and (z) accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "*Formulae for Calculating Gilt Prices from Yields*" published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement therefor, "Reference Date" means the date which is two

Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(iii); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

In any such case, prior to giving any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Security) of any other person, required to redeem the Bonds as aforesaid.

(c) *Redemption for Index Event, Taxation or Other Reasons*

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds which are linked to the same index are also redeemed at the same time. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Majority Creditors a certificate signed by an Authorised Signatory: (i) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

"**Index Event**" means: (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) or Condition 7(h)(ii) (*Delay in publication of Index*), as applicable, and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased; or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

Redemption for Taxation Reasons: In addition, if at any time the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or the Cayman Islands or any political subdivision thereof, or any other authority thereof or any change in the application or official interpretation of such laws or regulations, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitutions of a company incorporated under another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Issuer/SWS Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio (RPI))* or Condition 7(g) (*Application of the Index Ratio (CPI and CPIH*)), as applicable). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Majority Creditors a certificate signed by an Authorised Signatory: (i) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

(d) *Redemption on Prepayment of Issuer/SWS Loan Agreements*

If SWS gives notice to the Issuer under an Issuer/SWS Loan Agreement that it intends to prepay all or part of any advance made under such Issuer/SWS Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders in accordance with Condition 17 (*Notices*) (where such advance is being prepaid in whole), redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(e) *Early Redemption of Zero Coupon Bonds*

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 8(e) (*Early Redemption of Zero Coupon Bonds*) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, "**Accrual Yield**" and "**Reference Price**" and **"Zero Coupon Bond**" have the meanings given to them in the relevant Final Terms.

(f) *Purchase of Bonds*

The Issuer may, provided that no Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Individual Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Individual Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Individual Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Global Bond Certificate (as defined below), the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(g) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 8 (*Redemption, Purchase and* Cancellation), each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the Instalment Amount.

(h) Cancellation

In respect of all Bonds purchased by or on behalf of the Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(i) Instalments

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to Condition 8(b) (*Optional Redemption*).

(j) Partly Paid Bonds

Partly Paid Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

9 Payments

(a) Bearer Bonds

Payments to the Bondholders of principal (or, as the case may be. Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in: (i) the principal financial centre of that currency provided that such currency is not euro; or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) *Registered Bonds*

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named if joint holders) on the day prior to the date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in: (i) the principal financial centre of the country of the currency concerned, provided that such currency is not euro; or (ii) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in: (i) the principal financial centre of the country of that currency provided that such currency is not euro; or (ii) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

(c) *Payments in the United States of America*

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) *Payments Subject to Fiscal Laws; Payments on Global Bonds and Registered Bonds*

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

(e) *Appointment of the Agents*

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Issuer will at all times maintain: (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms) (in the case of Floating Rate Bonds or Indexed Bonds); and (iv) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system, which, while any Bonds are admitted to the Official List of the FCA and/or admitted to trading on the London Stock Exchange's Regulated Market or the London Stock Exchange's Professional Securities Market shall be in London. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

(i) Subject to the provisions of the relevant Final Terms, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmatured Coupons attached), unmatured Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) *Non-Business Days*

Subject as provided in the relevant Final Terms, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET system is open.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10 Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee or the Security Trustee is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee or the Security Trustee, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee or the Security Trustee will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee or the Security Trustee may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

11 Events of Default

The Events of Default (as defined in the Master Definitions Agreement) relating to the Bonds are set out in Schedule 7 to the Common Terms Agreement.

Following the notification of an Event of Default in respect of the Issuer, the STID provides for a Standstill Period (as defined in the Master Definitions Agreement) to commence and for restrictions to apply to all Secured Creditors of SWS. The Common Terms Agreement also contains various Trigger Events that will, if they occur (among other things) permit the Majority Creditors to commission an Independent Review, require SWS to discuss its plans for appropriate remedial action and prevent the SWS Financing Group from making further Restricted Payments until the relevant Trigger Events have been remedied.

(a) *Events of Default*

If any Event of Default occurs and is continuing in relation to the Issuer, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID), having certified in writing that in its opinion the happening of such event is materially prejudicial to the interests of the Bondholders and shall upon the Bond Trustee being so directed or requested: (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Sub-Classes of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Sub-Classes of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds; and subject, in each case, to being indemnified and/or secured to its satisfaction, give notice to the Issuer and the Security Trustee that the Bonds of the relevant Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Final Terms.

(b) *Confirmation of No Event of Default*

The Issuer, pursuant to the terms of the Common Terms Agreement, shall provide written confirmation to the Bond Trustee, on an annual basis, that no Event of Default has occurred in relation to the Issuer.

(c) *Enforcement of Security*

If the Bond Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors.

(d) *Automatic Acceleration*

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedge Termination or a Permitted Lease Termination (as defined in the Master Definitions Agreement) as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "**Reference Date**" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Final Terms plus, in each case, accrued and unpaid interest thereon.

12 Enforcement Against Issuer

No Bondholder is entitled to take any action against the Issuer or against any assets of the Issuer to enforce its rights in respect of the Bonds or to enforce any of the Security unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors pursuant to the STID, and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding-up, reorganisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13 Prescription

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 6(s) (*Definitions*)) in respect thereof.

14 Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Meetings of Bondholders, Modification, Waiver and Substitution

(a) *Decisions of Majority Creditors*

The STID contains provisions dealing with the manner in which matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with, Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (and additionally in a Default Situation (as defined in the Master Definitions Agreement) decisions made pursuant to the Emergency Instruction Procedure (as set out in Clause 9.12 of the STID)).

In the circumstances which do not relate to Entrenched Rights or Reserved Matters of the Bondholders (as set out in the STID), the Bond Trustee shall be entitled to vote as the DIG Representative (as defined in the Master Definitions Agreement) of holders of each Sub-Class of Bonds on intercreditor issues ("**Intercreditor Issues**") but shall not be entitled to convene a meeting of any one or more Sub-Classes of Bondholders to consider the relevant matter unless a Default Situation is subsisting. If a Default Situation has occurred and is subsisting, the Bond Trustee may vote on Intercreditor Issues in its absolute discretion or shall vote in accordance with a direction by those holders of such outstanding Class A Bonds or, if there are no Class A Bonds outstanding, Class B Bonds: (i) by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds; or (ii) (in respect of a DIG Proposal (as defined in the Master Definitions Agreement) to terminate a Standstill (as defined in the Master Definitions Agreement)) as requested in writing by the holders of at least one quarter of the Principal Amount Outstanding of the relevant Sub-Class of Class A Bonds then outstanding, or if there are no Class A

Bonds outstanding, Class B Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured to its satisfaction.

While a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the STID provide for an emergency instruction procedure. The Security Trustee will be required to act upon instructions contained in an emergency notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by DIG Representatives (the "**EIN Signatories**") representing 66⅔ per cent. or more of the aggregate Outstanding Principal Amount (as defined in the Master Definitions Agreement) of the Qualifying Class A Debt or following repayment in full of the Class A Debt, the Qualifying Class B Debt after, *inter alia*, excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced.

(b) *Meetings of Bondholders*

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID, be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an "**Extraordinary Resolution**") at such meeting. Such a meeting may be convened by the Bond Trustee or the Issuer and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Bonds for the time being outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Fourth Schedule to the Bond Trust Deed (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, Consent and Waiver*

As more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class, concur with the Issuer or any other relevant parties in making: (i) any modification of these Conditions, the Bond Trust Deed or any Finance Document which is of a formal, minor or technical nature or is made to correct a manifest error; and (ii) (except as mentioned in the Bond Trust Deed and subject to the terms of the STID) any other modification and granting any consent under or waiver or authorisation of any breach or proposed breach of these Conditions, the Bond Trust Deed or any such Finance Document or other document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Sub-Class. Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

Additionally, the Issuer may in accordance with Condition 6 (j)(ii), vary or amend these Conditions, the Bond Trust Deed and/or the Agency Agreement to give effect to certain amendments without any requirement for the consent or approval of Bondholders, and the Bond Trustee shall agree to such variations or amendments subject to the terms of Conditions 6(j)(ii).

(d) *Substitution of the Issuer*

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, without reference to the Bondholders, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series.

16 Bond Trustee Protections

(a) *Trustee Considerations*

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the relevant Series of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds then outstanding provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of such Class, it shall consider the interests of the holders of the Sub-Class of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds outstanding with the shortest dated maturity and will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer, nor shall any Bondholders be entitled to claim from the Issuer or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of Rights by Bond Trustee*

Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed or the Conditions in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has: (i) (A) (in respect of the matters set out in Condition 11 (*Events of Default*) and Condition 15(a) (*Decisions of the Majority Creditors*) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds outstanding; or (B) been so directed by an Extraordinary Resolution; and (ii) been indemnified and/or furnished with security to its satisfaction.

(c) *Decisions under STID Binding on all Bondholders*

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors and (in a Default Situation) decisions made pursuant to the Emergency Instruction Procedures will bind the Bond Trustee and the Bondholders in all circumstances.

17 Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear Bank S.A./N.V. as operator of the Euroclear System or Clearstream Banking, *société anonyme* or any other relevant clearing system as specified in the relevant Final Terms for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18 Indemnification of the Bond Trustee and Security Trustee

(a) *Indemnification of the Bond Trustee*

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Issuer and or any other person unless indemnified and/or secured to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition 7 (*Indexation*)) are entitled to enter into business transactions with the Issuer, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) *Indemnification of the Security Trustee*

Subject to the Entrenched Rights and Reserved Matters of the Security Trustee, the Security Trustee will only be required to take any action under or in relation to, or to enforce or protect the Security, or any other security interest created by a Finance Document, or a document referred to therein, if instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) and if indemnified to its satisfaction.

(c) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate), shall in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Security Trustee or the Bond Trustee pursuant to the STID, any Finance Document or any Ancillary Document (as defined in the Master Definitions Agreement).

19 European Economic and Monetary Union

(a) *Notice of Redenomination*

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

(ii) if Bonds have been issued in definitive form:

(a) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;

(b) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and

(c) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;

(iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and

(iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) Interest

Following redenomination of the Bonds pursuant to this Condition 19:

(i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01; and

(ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in Euro ranking *pari passu* to the relevant Sub-Class.

20 Miscellaneous

(a) Governing Law

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any) and the other Finance Documents are, and all matters arising from or in connection with such documents (including all non-contractual obligations) shall be governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) and/or the Finance Document may be brought in such courts. The Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) Third-Party Rights

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

Forms of the Bonds

Form and Exchange – Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Receipts, Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**" and, together with each Temporary Global Bond, the "**Global**

Bonds”), without Receipts, Coupons or Talons attached, in each case as specified in the relevant Final Terms. If the Global Bonds or the Registered Bonds issued in global form represented by registered global certificates (each a “**Global Bond Certificate**”) are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form or, following the substitution of the Issuer with an Eligible Issuer, to be held under the new safekeeping structure which applies to Global Bond Certificates held by a common safekeeper for Euroclear and Clearstream, Luxembourg (the “**Common Safekeeper**”) and which is required for such Global Bond Certificates to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations (“**NSS**”) (as the case may be), (i) the Global Bonds or the Global Bond Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper and (ii) the relevant clearing systems will be notified whether or not such Global Bonds or Global Bond Certificates are intended to be held in a manner which would allow Eurosystem eligibility.

Global Bonds which are not issued in NGN form (“**CGNs**”) and Global Bond Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”), and/or any other relevant clearing system.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Bonds.

Delivery of Bonds

Temporary Global Bond Exchangeable for Permanent Global Bond

If the relevant Final Terms specify the form of Bonds as being represented by “Temporary Global Bond exchangeable for a Permanent Global Bond”, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Receipts, Coupons or Talons attached, not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

Temporary Global Bond Exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the specified office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

Permanent Global Bond Exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Bonds in definitive form (the "**Definitive Bonds**") if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the specified office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denominations(s) only. If the Global Bond is in NGN form, the details of such exchange shall be entered pro rata into the relevant clearing system.

Conditions Applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under "*Terms and Conditions of the Bonds*" above and the provisions of the relevant Final Terms which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under "*Provisions Relating to the Global Bonds*".

Legend Concerning United States Persons

Global Bonds and Definitive Bonds having a maturity of more than 365 days and any Receipts, Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Receipt, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Receipt, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange – Global Bond Certificates

The following description is in respect of registered bonds issued under the Programme that are offered outside the United States in accordance with Regulation 5 of the Securities Act.

Global Bond Certificates

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or other clearing system will be represented by a Global Bond Certificate which will be registered in the name of a nominee for, and deposited with, a depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

Exchange

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates (each, a "**Individual Bond Certificate**") if: (a) Euroclear or Clearstream, Luxembourg and/or other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; (c) at any time at the request of the registered Holder if so specified in the Final Terms; or (d) the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Global Bond Certificate.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificate, such will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within seven business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Individual Bond Certificate (including the names and addresses of the persons in whose names the Individual Bond Certificate are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Rights Against Issuer

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

Provisions Relating to the Bonds while in Global Form

Clearing System Accountholders

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Global Bond Certificate.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each, an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to such Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Bonds and such obligations of the Issuer will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

*Meetings: The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.

*Cancellation: Cancellation of any Bond represented by a Global Bond or Global Bond Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.

*Notices: So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions.

PRO FORMA FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Bonds under the Programme.

[PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and are [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.]

Final Terms dated [–]

SOUTHERN WATER SERVICES (FINANCE) LIMITED

Legal Entity Identifier (LEI): 213800BTY35K1724Z452

Issue of [Sub-Class [-[–]] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

under the £6,000,000,000 Guaranteed Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated [–] 20[●] [and the supplemental Prospectus dated [–] which [together] constitute[s] a base prospectus for the purposes of Article 8 of Regulation (EU) 2017/1129 (and amendments thereto) (the "**Prospectus Regulation**"). This document constitutes the Final Terms of the Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor(s) and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [–].]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [–] and incorporated by reference into Prospectus [current date] [and the supplemental Prospectus dated [–]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 8 of Regulation (EU) 2017/1129 (and amendments thereto) (the "**Prospectus Regulation**") and must be read in conjunction with the Prospectus dated [–] 20[●] [and the supplemental Prospectus dated [–], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the base prospectus dated [–] 20[●] [and the supplemental Prospectuses dated [–] and [–]. [The Prospectus [and the supplemental Prospectuses] are available for viewing at [–].]

1	(i)	Issuer:	Southern Water Services (Finance) Limited
	(ii)	Guarantors:	Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited
2	(i)	Series Number:	[–]
	(ii)	Sub-Class Number:	[–]
3	Relevant Currency or Currencies:		[–]
4	Aggregate Nominal Amount of Bonds admitted to trading:		
	(i)	Series:	[–]
	(ii)	Tranche:	[–]
	(iii)	Sub-Class:	[–]
5	(i)	Issue Price:	[–] per cent. of the Aggregate Nominal Amount [plus accrued interest from [–]]
	(ii)	Offer Price (if different from Issue Price):	[–]
6	(i) Specified Denominations:		[–] [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000].]
	(ii) Calculation Amount:		[–]
7	(i)	Issue Date:	[–]
	(ii)	Interest Commencement Date (if different from the Issue Date):	[–]
8	Maturity Date:		[– [–]/Interest Payment Date falling in or nearest to [–]]
9	Instalment Date:		[Not Applicable/[–]]
10	Interest Basis:		[[–] per cent. Fixed Rate] [[specify reference rate – LIBOR/EURIBOR/SONIA] +/- [–] per cent. Floating Rate]

			[Zero Coupon]
			[Index Linked Interest]
11	Redemption/Payment Basis:		[Redemption at par]
			[Index Linked Redemption]
			[Partly Paid]
			[Instalment]
			[Dual Currency]
			[Other (*specify*)]
12	Change of Interest or Redemption/Payment Basis:		[–]
13	Call Options:		Issuer Call Option
14	(i)	Status and Ranking:	The Class A Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class B Bonds.
	(ii)	Status of the Guarantees:	Senior
	[(iii)]	[Date [Board] approval for issuance of Bonds and Guarantee obtained:	[–] and [–] respectively]]
15	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Bond Provisions:		[Applicable/Not Applicable]
	(i)	Interest Rate:	[–] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Determination Date:	[–] in each year
	(iii)	Interest Payment Date(s):	[–] in each year [adjusted in accordance with /not adjusted]
	(iv)	First Interest Payment Date	[–]
	(v)	Fixed Coupon Amount[(s)]:	[–] per [–] in Calculation Amount
	(vi)	Broken Amounts:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(vii)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual-ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[[–]/Not Applicable]
	(ix)	Reference Gilt:	[–]
17	Floating Rate Bond Provisions:		[Applicable/Not Applicable]

(i)	Interest Period(s)/Specified Interest Payment Dates:	[–]
(ii)	First Interest Payment Date:	[–]
(iii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(iv)	Business Centre:	[–]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vi)	Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank):	[Not Applicable/Calculation Agent]
(vii)	Screen Rate Determination:	[Applicable/Not Applicable]
	– Relevant Rate:	[EURIBOR/LIBOR/SONIA]
	– Interest Determination Date(s):	[–]
	– Page:	[–]
	– Relevant Time:	[–]
(viii)	ISDA Determination:	[Applicable/Not Applicable]
	– Floating Rate Option:	[–]
	– Designated Maturity:	[–]
	– Specified Duration:	[–]
	– Reset Date:	[–]
(ix)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(x)	Margin(s):	[+/-][–] per cent. per annum
	[Step-Up Fees:]	[–]
	[Step-Up Date:]	[–]
(xi)	Minimum Rate of Interest:	[Not Applicable]
(xii)	Maximum Rate of Interest:	[Not Applicable]
(xiii)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual – ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)
(xiv)	Additional Business Centre(s):	[–]

	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	[–]
	(xvi)	Relevant Financial Centre:	[–]
	(xvii)	Representative Amount:	[–]
	(xviii)	Reference Banks:	[–]
18	Zero Coupon Bond Provisions:		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[–] per cent. per annum
	(ii)	Reference Price:	[–]
	(iii)	Any other formula/basis of determining amount payable:	[–]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 8(e)]
19	Indexed Bond Provisions:		[Applicable/Not Applicable]
	(i)	Index/Formula:	[UK Retail Price Index/UK Consumer Price Index/UK Consumer Price Index including owner occupiers' housing costs]
	(ii)	Interest Rate:	[–]
	(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not Applicable/Calculation Agent]
	(iv)	Provisions for determining Coupon where calculated by reference to Index and/or Formulae:	[Conditions 7(a) – (e) apply] / [Conditions 7(f) to 7(j) apply]
	(v)	Determination Date:	
	(vi)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	Applicable – [Condition 7(c) and 7(e)] / [Condition 7(h) and 7(j)]
	(vii)	Interest Payment Dates:	[–]
	(viii)	First Interest Payment Date:	[–]

	(ix)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(x)	Business Centre:	[–]
	(xi)	Minimum Indexation Factor:	[Not Applicable/[–]]
	(xii)	Maximum Indexation Factor:	[Not Applicable/[–]]
	(xiii)	Value of "t" for determining CPI_{m-t}:	[Not Applicable/[–]]
	(xiv)	Value of "t" for determining $CPIH_{m-t}$:	[Not Applicable/[–]]
	(xv)	Limited Indexation Month(s):	[–]
	(xvi)	Reference Gilt:	[–]
	(xvii)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual-ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)]
20	Dual Currency Bond Provisions		[Applicable/Not Applicable]
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[–]
	(ii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[–]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[–]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[–]

PROVISIONS RELATING TO REDEMPTION

21	Issuer Call Option:		Applicable in accordance with Condition 8(b)/Not Applicable
	(i)	Optional Redemption Date(s):	Any Interest Payment Date [In the case of Floating Rate Bonds falling on or after [–] and at a premium of [–], if any]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[–]
	(iii)	If redeemable in part:	

		Minimum Redemption Amount:	[Not Applicable] [[–] per Calculation Amount]
		Maximum Redemption Amount:	[Not Applicable] [[–] per Calculation Amount]
	(iv)	Notice period (if other than as set out in the Conditions):	[Not Applicable]
	(v)	Applicable Uplift	[Not Applicable/[–]]
22	Final Redemption Amount:		[Principal Amount Outstanding plus accrued but unpaid interest]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

23	Form of Bonds		[Bearer/Registered]
	(i)	If issued in Bearer form:	[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [–] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.] [Temporary Global Bond exchangeable for Definitive Bonds on [–] days' notice.] [Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond.]
	(ii)	If Registered Bonds:	[Global Bond Certificate exchangeable for Individual Bond Certificates]
24		New Global Note/held under New Safekeeping Structure:	[Yes][No][Not Applicable]
25	Relevant Financial Centre(s) or other special provisions relating to Payment Dates:		[Not Applicable/[–].]
26	Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature):		[Yes/No.]
27	Details relating to Instalment Bonds:		[[–]/Not Applicable]
	(i)	Instalment Date:	[–]
	(ii)	Instalment Amount:	[–]
28	Redenomination, renominalisation and reconventioning provisions:		[Not Applicable/The provisions [in Condition 19/annexed to this Final Terms] apply]
29	TEFRA rules:		[TEFRA C/TEFRA D/Not Applicable]

ISSUER/SWS LOAN TERMS

30	Amount of relevant Term Advance/Index Linked Advances:	[–]
31	Interest rate on relevant Term Advance/Index Linked Advances:	[–]

32	Term of relevant Term Advance/Index Linked Advances:	[–]
33	Other relevant provisions:	[–]

DISTRIBUTION

Method of distribution		**[Syndicated/Non-syndicated]**
34	(i) If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii) Stabilising Manager (if any):	[Not Applicable/[●]]
35	If non-syndicated, name of Dealer:	[Not Applicable/[●]]
36	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
37	Prohibition of Sales to EEA and UK Retail Investors:	[Not Applicable/[●]]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange's Regulated Market the issue of Bonds described herein pursuant to the listing of the Programme for the issuance of Guaranteed Bonds financing Southern Water Services Limited.

THIRD-PARTY INFORMATION

[Relevant third-party information] has been extracted from [[–]]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [–], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

Signed on behalf of Southern Water Services Limited:

By: ....

Duly authorised

Signed on behalf of SWS Holdings Limited:

By: ....

Duly authorised

Signed on behalf of SWS Group Holdings Limited:

By: ....

Duly authorised

....

PART B – OTHER INFORMATION

1 Listing

(i)	Listing:	[Listed on the Official List of the FCA]
(ii)	Admission to trading:	[Application has been made for the Bonds to be admitted to trading on [the London Stock Exchange] with effect from [–]].
(iii)	Estimate of total expenses related to admission to trading:	[–]

2 Ratings

Ratings: The Bonds to be issued have been rated:

[S&P: [–]]

[Moody's: [–]]

[Fitch: [–]]

3 [Notification

The FCA [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Regulation.]

4 [Interests of Natural and Legal Persons involved in the [Issue/Offer]]

[The Manager[s] and their affiliates may have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, and/or its affiliates in the ordinary course of business.]" or "[Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer.]

5 Reasons for the offer, estimated net proceeds and total expenses

(i)	[Reasons for the offer:	[Use of proceeds if other than for general corporate purposes.] [*If relevant in the applicable Final Terms, the following language shall be included*: [The net proceeds from the issuance of the Bonds will be allocated to the financing or refinancing of, and/or investment in "Green Bonds" as described in Chapter 9 "*Use and Estimated Net Amount of Proceeds*" under "*Green Bonds*" in the Prospectus, meeting the following eligibility criteria [*insert eligibility criteria*]]]
(ii)	[Estimated net proceeds:	[–]
(iii)	[Estimated total expenses:	[–]

6 **[Fixed Rate Bonds only – YIELD**

Indication of yield:	[–] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7 **[Floating Rate Bonds Only – HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Telerate/Reuters].]

8 **[Index-Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

(i) Name of underlying index:	[UK Retail Price Index (RPI) (all items) published by the Office for National Statistics] / [any comparable index which may replace the UK Retail Price Index] / [UK Consumer Price Index (CPI) (all items) published by the Office for National Statistics] / [UK Consumer Price Index including owner occupiers' housing costs (CPIH) (all items) published by the Office for National Statistics] /
(ii) Information about the Index, its volatility and past and future performance can be obtained from:	More information on [RPI/CPI/CPIH/comparable index which may replace RPI/CPI/CPIH] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI/CPI/CPIH], can be found at [www.statistics.gov.uk / relevant replacing website / www.ons.gov.uk/economy/inflationandpriceindices]

9 **[Dual currency Bonds only – PERFORMANCE OF RATE[S] OF EXCHANGE**

[–]

10 **Operational information**

ISIN Code:	[–]
Common Code:	[–]
[CFI:	[Not Applicable/[●]]
[FISN:	[Not Applicable/[●]]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[[–]/Not Applicable]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[–]
Names and addresses of additional Paying Agent(s) (if any):	[–]

	[Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Bonds are capable of meeting them the Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
11	**Green Bonds**	[Applicable]/[Not Applicable]
12	**Social Bonds**	[Applicable]/[Not Applicable]

PRO FORMA PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement for the Bonds described herein.

[PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and are [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.]
Pricing Supplement dated [●]

SOUTHERN WATER SERVICES (FINANCE) LIMITED
LEI: 213800BTY35K1724Z452

Issue of [Aggregate Nominal Amount of Tranche]
[Title of Bonds]
under the £6,000,000,000 Guaranteed Bond Programme

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Bonds may only do so in circumstances in which no obligation arises for the Issuer, the Arranger or any Dealer to publish a prospectus pursuant to Article 3(1) of the Prospectus Regulation (EU) No 2017/1129 or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation (EU) No 2017/1129, in each case, in relation to such offer.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Listing Particulars dated [●] which [together with the supplementary listing particulars dated [●]] constitutes listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Conduct Authority (the "**Listing Rules**"). This document constitutes the Pricing Supplement of the Bonds described herein for the purposes of Listing Rule 4.2.3 of the Listing Rules and must be read in conjunction with such Listing Particulars [as so supplemented]. Full information on the Issuer, the Guarantors and the offer of the Bonds is only available on the basis of the combination of this Pricing Supplement and the Listing Particulars [as so supplemented]. The Listing Particulars [and the supplementary listing particulars] [is] [are] available for viewing at and copies may be obtained from Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX and [has/have] been published on the website of Regulatory News Services operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1	(i)	Issuer:	Southern Water Services (Finance) Limited
	(ii)	Guarantors:	Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited
2	(i)	Series Number:	[●]
	(ii)	Sub-Class Number:	[●]
	(iii)	[Date on which the Bonds become fungible:	[Not Applicable] / [The Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert description of the Series*] on [*insert date*/the Issue Date/exchange of the Temporary Global Bond for interests in the Permanent Global Bond, as referred to in paragraph [24] below [which is expected to occur on or about [*insert date*]].]
3		Specified Currency or Currencies:	[●]
4		Aggregate Nominal Amount	[●]
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
	(iii)	Sub-Class:	[●]
5		Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6	(i)	Specified Denominations:	[●] [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000].]
	(ii)	Calculation Amount:	[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date	[[*specify date*] / Issue Date / Not Applicable]
8		Maturity Date:	[●] / [Interest Payment Date falling on or nearest to [●]]

			[*for Floating Rate Bonds specify the Interest Payment Date falling in or nearest to the relevant month and year*]
9		Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR][EURIBOR][SONIA] +/– [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest]
10		Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11		Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Bonds into another interest or redemption/ payment basis*] [Not Applicable]
12		Call Options:	Issuer Call Option
13	(i)	Status of the Bonds:	The Class A Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class B Bonds.
	(ii)	Status of the Guarantee:	Senior
	(iii)	[Date [Board] approval for issuance of Bonds [and Guarantee] obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14		**Fixed Rate Bond Provisions**	[Applicable / Not Applicable]
	(i)	Interest Rate:	[●] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date:	[●] in each year
	(iii)	Fixed Coupon Amount[(s)]:	[●] per [●] in Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual-ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)]
	(vi)	Interest Determination Dates:	[●] in each year
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[Not Applicable/ [●]]

	(viii)	[Reference Gilt:	[●]]
15		**Floating Rate Bond Provisions**	[Applicable/Not Applicable]
	(i)	Interest Period(s):	[●] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]
	(ii)	Specified Interest Payment Dates:	[●] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]
	(iii)	Interest Period Date:	[Not Applicable] / [[●] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment, as the Business Day Convention in (v) below is specified to be Not Applicable]]
	(iv)	First Interest Payment Date:	[●]
	(v)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(vi)	Business Centre(s):	[●]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination / ISDA Determination]
	(viii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and/or and Redemption Amount (if not the Agent Bank):	[Not Applicable/Calculation Agent]
	(ix)	Screen Rate Determination:	[Applicable/Not Applicable]
		– Relevant Rate:	[EURIBOR/LIBOR/SONIA]
		– Interest Determination Date(s):	[●]
		– Page:	[●]
		– Relevant Time:	[●]
	(x)	ISDA Determination:	[Applicable/Not Applicable]
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Specified Duration:	[●]
		– Reset Date:	[●]
		– [- ISDA Definitions	[2000/2006]]

	(xi)	[Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
	(xii)	Margin(s):	[±][●] per cent. per annum
		[Step-Up Fees:]	[●]
		[Step-Up Date:]	[●]
	(xiii)	Minimum Rate of Interest:	[Not Applicable] / [[●] per cent. per annum]
	(xiv)	Maximum Rate of Interest:	[Not Applicable] / [[●] per cent. per annum]
	(xv)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual – ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)]
	(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	[●]
	(xvii)	Relevant Financial Centre:	[●]
	(xviii)	Representative Amount:	[●]
	(xix)	Reference Banks:	[●]
16		**Zero Coupon Bond Provisions**	[Applicable/Not Applicable]
	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 8(e)]
17		**Index-Linked Interest Bond**	[Applicable/Not Applicable]
	(i)	Index/Formula:	[UK Retail Price Index/UK Consumer Price Index/UK Consumer Price Index including owner occupiers' housing costs]
	(ii)	Interest Rate:	[●]
	(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not Applicable/Calculation Agent]
	(iv)	Provisions for determining Coupon where calculated by reference to Index and/or Formulae:	[●]
	(v)	Determination Date(s):	[●]

	(vi)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[Conditions 7(a) – (e) apply]
	(vii)	Interest or calculation period(s):	[●]
	(viii)	Interest Payment Dates:	[●]
	(ix)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(x)	Business Centre(s):	[●]
	(xi)	Minimum Indexation Factor:	[Not Applicable] / [●]
	(xii)	Maximum Indexation Factor:	[Not Applicable] / [●]
	(xiii)	Value of "t" for determining CPI_{m-t}:	[Not Applicable/[–]]
	(xiv)	Value of "t" for determining $CPIH_{m-t}$:	[Not Applicable/[–]]
	(xv)	Limited Indexation Month(s):	[●]
	(xvi)	[Reference Gilt:	[●]]
	(xvii)	Day Count Fraction:	[Actual/Actual ICMA] [Actual/Actual or Actual/Actual-ISDA] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)]
18		**Dual Currency Bond Provisions**	[Applicable/Not Applicable]
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[●]
	(ii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

19		Issuer Call Option	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	Any Interest Payment Date [In the case of Floating Rate Bonds falling on or after [●] and at a premium of [●], if any]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]
	(iii)	If redeemable in part:	

		Minimum Redemption Amount:	[Not Applicable] [[●] per Calculation Amount]
		Maximum Redemption Amount:	[Not Applicable] [[●] per Calculation Amount]
	(iv)	Notice period (if other than as set out in the Conditions):	[Not Applicable]
	(v)	Applicable Uplift:	[Not Applicable] / [●]
20		Final Redemption Amount of each Bond	[Principal Amount Outstanding plus accrued but unpaid interest]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

21		Form of Bonds:	[Bearer/Registered]
		If issued in Bearer form:	[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [–] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.] [Temporary Global Bond exchangeable for Definitive Bonds on [–] days' notice.] [Permanent Global Bond exchangeable for Definitive Bonds in the limited circumstances specified in the Permanent Global Bond.]
		If Registered Bonds:	[Global Bond Certificate exchangeable for Individual Bond Certificates]
		New Global Note/held under New Safekeeping Structure:	[Yes][No][Not Applicable]
22		Relevant Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/[–].]
23		Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature):	[Yes/No.]
24		Details relating to Instalment Bonds:	[[–]/Not Applicable]
	(i)	Instalment Date:	Instalment Date:
	(ii)	Instalment Amount:	Instalment Amount:
25		Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition 19/annexed to this Final Terms] apply]
26		TEFRA rules:	[TEFRA C/TEFRA D/Not Applicable]

ISSUER/SWS LOAN TERMS

27	Amount of relevant Term Advance/Index Linked Advances:	[●]
28	Interest rate on relevant Term Advance/Index Linked Advances:	[●]

29	Term of relevant Term Advance/Index Linked Advances:	[●]
30	Other relevant provisions:	[●]

DISTRIBUTION

	Method of distribution	**[Syndicated/Non-syndicated]**
31	If syndicated, names of Managers:	[Not Applicable/[●]]
	Stabilising Manager (if any):	[Not Applicable/[●]]
32	If non-syndicated, name of Dealer:	[Not Applicable/[●]]
33	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
34	Prohibition of Sales to EEA and UK Retail Investors:	[Not Applicable/[●]]

RESPONSIBILITY

The Issuer and the Guarantors accept[s] responsibility for the information contained in this Pricing Supplement. [*(Relevant third party information*) has been extracted from (*specify source*). [Each of the] [The] Issuer [and the Guarantor(s)] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

THIRD-PARTY INFORMATION

[Relevant third-party information] has been extracted from [[–]]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [–], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ....

Duly authorised

Signed on behalf of Southern Water Services Limited:

By: ....

Duly authorised

Signed on behalf of SWS Holdings Limited:

By: ....

Duly authorised

Signed on behalf of SWS Group Holdings Limited:

By: ....

Duly authorised

PART B – OTHER INFORMATION

1 Listing

(i)	Listing:	[Listed on the Official List of the FCA]
(ii)	Admission to trading:	[Application has been made for the Bonds to be admitted to trading on the London Stock Exchange's professional securities market with effect from [●]] / [Application is expected to be made by the Issuer (or on its behalf) for the Bonds to be admitted to trading on the London Stock Exchange's professional securities market with effect from [●].]
(iii)	Estimate of total expenses related to admission to trading:	[●]

2 Ratings

Ratings: The Bonds to be issued [have]/[have not] been rated:

[S&P: [●]]
[Moody's: [●]]
[Fitch: [●]]

3 [Notification

The FCA [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Regulation.]

4 [Interests of Natural and Legal Persons involved in the [Issue/Offer]]

[The Manager[s] and their affiliates may have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, and/or its affiliates in the ordinary course of business.]" or "[Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer.]

5 Reasons for the offer, estimated net proceeds and total expenses

(i)	[Reasons for the offer:	[Use of proceeds if other than for general corporate purposes.] [*If relevant in the applicable Final Terms, the following language shall be included*: [The net proceeds from the issuance of the Bonds will be allocated to the financing or refinancing of, and/or investment in "Green Bonds" as described in Chapter 9 "*Use and Estimated Net Amount of Proceeds*" under "*Green Bonds*" in the Prospectus, meeting the following eligibility criteria [*insert eligibility criteria*]]]
(ii)	[Estimated net proceeds:	[●]

(iii)	[Estimated total expenses:	[●]

6 [Fixed Rate Bonds only – YIELD

Indication of yield:	[●] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7 [Floating Rate Bonds Only – HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Telerate/Reuters].]

8 [Index-Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

(i) Name of underlying index:	[UK Retail Price Index (RPI) (all items) published by the Office for National Statistics] / [any comparable index which may replace the UK Retail Price Index] / [UK Consumer Price Index (CPI) (all items) published by the Office for National Statistics] / [UK Consumer Price Index including owner occupiers' housing costs (CPIH) (all items) published by the Office for National Statistics] /
(ii) Information about the Index, its volatility and past and future performance can be obtained from:	More information on [RPI/CPI/CPIH/comparable index which may replace RPI/CPI/CPIH] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI/CPI/CPIH], can be found at [www.statistics.gov.uk / relevant replacing website / www.ons.gov.uk/economy/inflationandpriceindices]

9 [Dual currency Bonds only – PERFORMANCE OF RATE[S] OF EXCHANGE

[●]

10 Operational information

ISIN Code:	[●]
Common Code:	[●]
[CFI:	[Not Applicable/[●]]
[FISN:	[Not Applicable/[●]]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[[●]/Not Applicable]
Delivery:	Delivery [against/free of] payment

	Names and addresses of initial Paying Agent(s):	[●]
	Names and addresses of additional Paying Agent(s) (if any):	[●]
	[Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Bonds are capable of meeting them the Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
11	**Green Bonds**	[Applicable]/[Not Applicable]
12	**Social Bonds**	[Applicable]/[Not Applicable]

CHAPTER 9
USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds from each issue of Bonds under the Programme will be on-lent to SWS under the terms of further Issuer/SWS Loan Agreements to be applied by SWS for its general corporate purposes or used to repay or service the Issuer's Financial Indebtedness.

If, in respect of an issue of Bonds, there is a particular use of proceeds, this will be stated in the applicable Final Terms.

Green Bonds

Where the applicable Final Terms denote a Series of Bonds as "Green Bonds" ("**Green Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to SWS for the financing and/or refinancing of, and/or investment in, the Eligible Green Portfolio (as defined below) falling within the Green Eligible Categories (as defined below).

"**Eligible Green Portfolio**" means a portfolio of one or more Eligible Green Investments.

"**Eligible Green Investments**" means investments which fall within the Green Eligible Categories.

"**Green Eligible Categories**" means the categories prepared by the Issuer and/or SWS in accordance with the broad categorisation for eligibility set out by the International Capital Market Association in its publication titled "*Green Bond Principles, Voluntary Process Guidelines for Issuing Green Bonds*" dated June 2018, and which shall be made available at https://www.southernwater.co.uk/media/3340/5051_sustainablefinancing_framework_2020_v7.pdf.

A third-party consultant has reviewed the Green Eligible Categories published as at the date of this Prospectus and has published an opinion which is available at https://www.southernwater.co.uk/media/3339/dnv-gl-southern-water-sustainable-financing-framework-assessment-14-jan-2020.pdf, and in respect of any Green Bonds issued, such third-party consultant will review the Eligible Green Portfolio and issue a report and/or opinion based on the Green Eligible Categories (an "**External Review**"). The External Review will be made available at https://www.southernwater.co.uk/our-story/investors.

The Issuer and/or SWS have established systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Green Portfolio falling within the Green Eligible Categories.

Social Bonds

Where the applicable Final Terms denote a Series of Bonds as "Social Bonds" ("**Social Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to SWS for the financing and/or refinancing of, and/or investment in, the Eligible Social Portfolio (as defined below) falling within the Social Eligible Categories (as defined below).

For the purposes of this Chapter:

"**Eligible Social Investments**" means investments which fall within the Social Eligible Categories.

"**Eligible Social Portfolio**" means a portfolio of one or more Eligible Social Investments.

"**Social Eligible Categories**" means the categories prepared by the Issuer and/or SWS as set out in the Southern Water Sustainable Finance Framework (which shall be made available at https://www.southernwater.co.uk/media/3340/5051_sustainablefinancing_framework_2020_v7.pdf).

A third party consultant has reviewed the Social Eligible Categories published as at the date of this Prospectus and has published an opinion which is available at https://www.southernwater.co.uk/media/3339/dnv-gl-southern-water-sustainable-financing-framework-assessment-14-jan-2020.pdf, and in respect of the Social Bonds issued, such third party consultant will review the Eligible Social Portfolio and issue a report and/or opinion based on the Social Eligible Categories (an "**External Review**"). The External Review will be made available at https://www.southernwater.co.uk/our-story/investors.

The Issuer and/or SWS has established systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Social Portfolio falling within the Social Eligible Categories. The Issuer and/or SWS have in place the process for annual reporting as required under the framework.

Reporting in Relation to Green and Social Bonds

The Issuer is expected to issue a report on: (i) the Eligible Green Portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated; (ii) the expected impact of the Eligible Green Portfolio; and (iii) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within one year from the date of the first issuance of Green Bonds under the Programme and annually thereafter and as necessary in the event of material developments. In addition, the Issuer is expected to provide regular information through its website www.southernwater.co.uk on the environmental and/or social outcomes of the Eligible Green Portfolio.

The Issuer is expected to issue a report on: (i) the Eligible Green Portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated; (ii) the expected impact of the Eligible Green Portfolio; (iii) the Eligible Social Portfolio to which proceeds of Social Bonds have been allocated and the amounts allocated; (iv) the expected impact of the Eligible Social Portfolio; and (v) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within one year from the date of the first issuance of Green Bonds or Social Bonds under the Programme and annually thereafter and as necessary in the event of material developments. In addition, the Issuer is expected to provide regular information through its website https://www.southernwater.co.uk/our-story/investors on the environmental and/or social outcomes of the Eligible Green Portfolio and Eligible Social Portfolio.

CHAPTER 10
DESCRIPTION OF HEDGE COUNTERPARTIES

The information contained herein with respect to the Hedge Counterparties relates to, and has been obtained from each Hedge Counterparty respectively. Delivery of this Prospectus shall not create any implication that there has been no change in the affairs of a Hedge Counterparty since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Credit ratings included or referred to in this Chapter 10 and in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Community and registered under the CRA Regulation.

1. ALUM BAY DESIGNATED ACTIVITY COMPANY

Alum Bay Designated Activity Company is a designated activity company limited by shares which was incorporated under the laws of Ireland on 18 September 2018 under the Companies Act 2014 of Ireland (as amended) with registration number 634160. The Company's registered office is at 32 Molesworth Street, Dublin 2, Ireland. Alum Bay Designated Activity Company's telephone number is +353 1 697 3200 and its facsimile number is +353 1 697 3300.

2. BANCO SANTANDER, LONDON BRANCH

Banco Santander, S.A., London Branch, acting through its office at 2 Triton Square, Regent's Place, London NW1 3AN. Banco Santander, S.A., London Branch is an affiliate of Banco Santander, S.A. Registered Address: Paseo de Pereda 9-12, 39004 Santander, Spain. Registered with the Bank of Spain (Banco de España) under registration number 0049 with CIF A-39000013. Registered in Spain. Banco Santander S.A., London Branch is authorised by Bank of Spain and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority.

3. BANK OF AMERICA, N.A.

Bank of America, N.A. ("**BANA**") is the flagship national, full-service consumer and commercial bank and primary operating subsidiary of BAC. BANA operates in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, and has active foreign branches in 17 countries. The retail banking footprint covers approximately 80 percent of the U.S. population. BANA is a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions, and individuals around the world.

4. BNP PARIBAS

BNP Paribas is a French multinational bank and financial services company with its registered office located at 16 boulevard des Italiens 75009 Paris, France, and its corporate website in English is http://www.bnpparibas.com/en

BNP Paribas, together with its consolidated subsidiaries (the "**BNP Paribas Group**") is a global financial services provider, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world.

The BNP Paribas Group, one of Europe's leading providers of banking and financial services, has four domestic retail banking markets in Europe, namely in Belgium, France, Italy and Luxembourg.

It operates in 71 countries and has nearly 199,000 employees, including over 151,000 in Europe. BNP Paribas holds key positions in its two main businesses: Retail Banking and Services, which includes:

(1) Domestic Markets, comprising:

(a) French Retail Banking (FRB),

(b) BNL banca commerciale (BNL bc), Italian retail banking,

(c) Belgian Retail Banking (BRB),

(d) Other Domestic Markets activities including Luxembourg Retail Banking (LRB);

(2) International Financial Services, comprising:

(a) Europe-Mediterranean,

(b) BancWest,

(c) Personal Finance,

(d) Insurance,

(e) Wealth and Asset Management;

(3) Corporate and Institutional Banking (CIB):

(f) Corporate Banking,

(g) Global Markets,

(h) Securities Services.

BNP Paribas SA is the parent company of the BNP Paribas Group.

At 31 December 2019, the BNP Paribas Group had consolidated assets of €2,165 billion (compared to €2,044 billion at 1st January 2019[25]), consolidated loans and receivables due from customers of €806 billion (compared to €766 billion at 1st January 2019[26]), consolidated items due to customers of €835 billion (compared to €797 billion at 1st January 2019[26]) and shareholders' equity (Group share) of €107.5 billion (compared to €101.3 billion at 1st January 2019[26]).

At 31 December 2019, pre-tax income was €11.4 billion (compared to €10.2 billion as at 31 December 2018). Net income, attributable to equity holders, for the full year 2019 was €8.2 billion (compared to €7.5 billion for the full year 2018).

At the date of this Memorandum, the BNP Paribas Group currently has Long Term Senior Preferred debt ratings of "A+" with stable outlook from S&P, "Aa3" with stable outlook from Moody's Investors Service, Inc. and "AA-" with stable outlook from Fitch Ratings, Ltd and "AA (low)" with stable outlook from DBRS.

5. DEUTSCHE BANK AG, LONDON BRANCH

[25] Revised presentation based on the new IFRS 16 accounting standard

Deutsche Bank AG, London Branch is the London branch of Deutsche Bank AG. On 12 January 1973 Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993 Deutsche Bank registered under Schedule 21A to the Companies Act 1985 having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG, London Branch is an authorised person for the purposes of section 19 of the Financial Services and Markets Act 2000.

As of 30 September 2019, Deutsche Bank's issued share capital amounted to Euro 5,290,939,215.36 consisting of 2,066,773,131 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all German Stock Exchanges. They are also listed on the New York Stock Exchange.

As of 30 June 2019, Deutsche Bank Group had total assets of Euro 1,436,096 million, total liabilities of Euro 1,371,114 million and total equity of Euro 64,982 million on the basis of International Financial Reporting Standards (unaudited).

Deutsche Bank's long-term senior debt has been assigned a rating of BBB+ (outlook stable) by Standard & Poor's, A3 (outlook negative) by Moody's Investors Service, BBB+ by Fitch Ratings and A(low) (outlook negative) by DBR Ratings.

6. HSBC BANK PLC

HSBC Bank plc and its subsidiaries form a group providing a range of banking products and services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a company limited by shares in 1880. In 1923, the company adopted the name Midland Bank Limited, which it held until 1982 when it re-registered as a public limited company and changed its name to Midland Bank plc. In 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose Group Head Office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in 1999.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide across 65 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,728bn at 30 September 2019, HSBC is one of the world's largest banking and financial services organisations.

The short term senior unsecured and unguaranteed obligations of HSBC Bank `plc are, as at the date of this Prospectus, rated P-1 by Moody's and A-1+ by Standard & Poor's and HSBC Bank plc has a short term issuer default rating of F1+ from Fitch. The long term senior unsecured and unguaranteed obligations of HSBC Bank plc are rated Aa3 by Moody's and AA- by Standard & Poor's and HSBC Bank plc has a long term issuer default rating of AA- from Fitch.

HSBC Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. HSBC Bank plc's principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

7. ING BANK N.V.

ING Bank N.V. is a public limited company (naamloze vennootschap) incorporated under the laws of The Netherlands on 12 November 1927, with its corporate seat (statutaire zetel) in Amsterdam, The Netherlands ("**ING Bank**"). ING Bank is registered at the Chamber of Commerce of Amsterdam under No. 33031431.

ING Bank is part of ING Groep N.V. ("**ING Group**"). ING Group is the holding company of a broad spectrum of companies (together called "**ING**") offering banking services to meet the needs of a broad customer base.

ING Bank is a wholly-owned, non-listed subsidiary of ING Group and currently offers retail banking services to individuals, small and medium-sized enterprises and mid-corporates in Europe, Asia and Australia and commercial banking services to customers around the world, including multinational corporations, governments, financial institutions and supranational organisations. ING Group currently serves approximately 38.4 million retail and wholesale banking customers through an extensive network in more than 40 countries. ING Bank has more than 52,000 employees.

ING Bank is directly supervised by the European Central Bank ("**ECB**") as part of the Single Supervisory Mechanism ("**SSM**"). The SSM comprises of the ECB and national competent authorities of participating Member States. The SSM is responsible for 'prudential supervision' (the financial soundness of financial institutions). The ECB is responsible for specific tasks in the area of prudential supervision while the Dutch Central Bank, De Nederlandsche Bank ("**DNB**"), remains responsible for prudential supervision in respect of those powers that are not conferred to the ECB, which includes supervision on payment systems and financial crime supervision. The Netherlands Authority for the Financial Markets ("**AFM**"), is responsible for 'conduct of business supervision' (assessing the behaviour of players in the Dutch financial markets) of ING Bank.

The information in the preceding four paragraphs has been provided by ING Bank for use in this Prospectus and ING Bank is solely responsible for the accuracy of the preceding three paragraphs. Except for the preceding three paragraphs, ING Bank in its capacity as Swap Counterparty, and its affiliates have not been involved in the preparation of, and do not accept responsibility for, this Prospectus.

8. JPMORGAN CHASE BANK, N.A.

JPMorgan Chase Bank, National Association (the "**Bank**") is a wholly owned subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of December 31st, 2018, JPMorgan Chase Bank, National Association, had total assets of $2,622.5 billion, total net loans of $984.6 billion, total deposits of $1,470.7 billion, and total stockholder's equity of $256.5 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "**Call Report**") as of 31 December 2018, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles. The Call Report including any update to the above quarterly figures is filed with the Federal Deposit Insurance Corporation and can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended 31 December 2018, of JPMorgan Chase & Co., the 2018 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "**SEC**") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 383 Madison Ave, New York, New York 10017 or at the SEC's website at www.sec.gov.

9. LLOYDS BANK CORPORATE MARKETS PLC

Lloyds Bank Corporate Markets plc ("**Lloyds Bank Corporate Markets**") is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**"), was incorporated under the laws of England and Wales on 28 September 2016 (registration number 10399850) and is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the Financial Conduct Authority and the PRA. Lloyds Bank Corporate Markets's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom.

Lloyds Bank Corporate Markets was created in response to the Financial Services (Banking Reform) Act 2013, which took effect from 1 January 2019 and requires the separation of certain commercial banking activities and international operations from the rest of the Lloyds Banking Group.

Lloyds Bank Corporate Markets and its subsidiaries support a diverse range of customers and provides abroad range of banking products to help them achieve their financial goals. The Group's revenue is earned through interest and fees on a range of financial services products to commercial clients including loans, deposits, trade and asset finance, debt capital markets, and derivatives; and current accounts, savings accounts, mortgages, car finance and personal loans in the Retail market in our Crown Dependencies businesses.

Additional information on Lloyds Bank Corporate Markets, and Lloyds Banking Group's approach to ring-fencing, is available from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN or from the following internet website address: http://www.lloydsbankinggroup.com. The information on this website does not form part of this Prospectus.

10. LUNAR LUXEMBOURG S.A. (COMPARTMENT 2019-02)

Lunar Luxembourg S.A. is a special purpose vehicle incorporated as a société anonyme (public limited liability company) under the laws of Luxembourg on 16 May 2018 under the name of Lunar Luxembourg S.A. for the purpose of issuing asset backed securities in accordance with the Securitisation Law.

The registered office of Lunar Luxembourg S.A. is at 46a, avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg. The telephone number of Lunar Luxembourg S.A. is +352 42 71 71 1.

11. LUNAR LUXEMBOURG S.A. (COMPARTMENT 2019-03)

Lunar Luxembourg S.A. is a special purpose vehicle incorporated as a société anonyme (public limited liability company) under the laws of Luxembourg on 16 May 2018 under the name of Lunar Luxembourg S.A. for the purpose of issuing asset backed securities in accordance with the Securitisation Law.

The registered office of the company is at 46a, avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg. The telephone number of the company is +352 42 71 71 1.

12. BANK OF AMERICA MERRILL LYNCH INTERNATIONAL BANK D.A.C.

Bank of America Merrill Lynch International Designated Activity Company, ("**BAMLI DAC**" or "**the bank**") is a wholly owned subsidiary of Bank of America Corporation ("**BAC**"). Following a cross border merger on 1 December 2018, BAMLI DAC became the primary banking entity for BAC in the EMEA region and was designated a "significant institution" under the Single Supervisory Mechanism in Europe.

BAMLI DAC, headquartered in Dublin, is the primary entity in the EU region for Global Banking and Global Markets lending activity. A GT&O shared service centre, also located in Dublin, provides support to GBAM business in Ireland and other countries across the region.

13. MORGAN STANLEY & CO. INTERNATIONAL PLC

Morgan Stanley & Co. International plc is a public company incorporated with limited liability under the laws of England and Wales whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley & Co. International plc is an indirect wholly owned subsidiary of Morgan Stanley. Morgan Stanley & Co. International plc is a U.K. registered broker dealer. The principal activity of Morgan Stanley & Co. International plc is the provision of financial services to corporations, governments and financial institutions. It is authorised by the U.K. Prudential Regulation Authority and regulated by the U.K. Financial Conduct Authority and the U.K. Prudential Regulation Authority.

14. NATIONAL AUSTRALIA BANK LIMITED

NAB is registered in the State of Victoria with Australian Business Number (ABN) 12 004 044 937. NAB is a public limited company incorporated in the Commonwealth of Australia and is authorised and regulated by the Australian Prudential Regulation Authority. Its registered office is Level 4, 800 Bourke Street, Docklands, Victoria 3008, Australia. NAB and its controlled entities ("**NAB Group**") is an international financial services group, that provides a comprehensive range of financial products and services, with more than 33,000 employees, operating almost 900 branches and banking centres globally and serving approximately nine million customers.

15. NATWEST MARKETS PLC

NatWest Markets Plc ("**NWM**") is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the '**holding company**'), a banking and financial services group. NWM provides risk management, trading solutions and debt financing principally to UK and European corporate customers and global financial institutions to help these customers manage their financial risks and achieve their short- and long-term financial goals while navigating changing markets and regulation.

The '**NWM Group**' comprises NWM and its subsidiary and associated undertakings. The '**RBS Group**' comprises the holding company and its subsidiary and associated undertakings, including the NWM Group.

As at 30 September 2019, the NWM Group had total assets of £313.7 billion and owners' equity of £8.5 billion and the Bank had a total capital ratio of 21.6% and a CET1 capital ratio of 14.7%. Further information relating to the NWM Group can be found in the NWM Group 2018 Annual Report and Accounts, in the NWM H1 2019 Interim Results, in the NWM Q3 2019 Interim Management Statement, in the NWM Group Registration Statement dated 22 March 2019 and any supplements thereto, and other relevant filings or announcements, which can be found at https://investors.rbs.com/regulatory-news/company-announcements.aspx.

The long-term, unsecured and unsubordinated debt obligations of NWM are rated A- by Standard & Poor's, A by Fitch and Baa2 by Moody's. NWM's counterparty risk assessment is A3(cr) by Moody's.

As at the date of this Prospectus, NWM has securities admitted to trading on the regulated market of the London Stock Exchange.

16. SMBC NIKKO CAPITAL MARKETS LIMITED

SMBC Nikko Capital Markets Limited ("**CM Ltd**") is a full scope IFPRU investment firm incorporated in the United Kingdom and authorised and regulated by the Financial Conduct Authority. CM Ltd is a subsidiary of Sumitomo Mitsui Banking Corporation, the second largest bank in Japan by assets, and is therefore ideally positioned to provide our customers with additional value as a partner in the increasingly important Japanese financial markets.

With a focus on meeting the diversified needs of our clients, CM Ltd is committed to providing a wider range of high value-added financial products, services and solutions in order to become a long-term strategic partner for all our clients.

17. UBS AG, LONDON BRANCH

UBS AG is a Swiss bank and a wholly owned subsidiary of UBS Group AG. UBS AG with its subsidiaries provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland. The operational structure of UBS Group AG and its subsidiaries ("**UBS**" or the "**Group**") is comprised of the Corporate Center and four business divisions: Global Wealth Management, Personal & Corporate Banking, Asset Management and the Investment Bank. UBS's strategy is centered on its leading global wealth management business and its premier personal and corporate banking business in Switzerland, complemented by its focused investment bank and global asset manager. UBS concentrates on capital-efficient businesses in its targeted markets, where UBS has a strong competitive position and an attractive long-term growth or profitability outlook.

The London Branch operates as a branch of UBS AG. The London Branch is registered as a bank branch in England and Wales under Branch No. BR004507. UBS AG is authorized and regulated by the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**") in Switzerland and is also authorized as a credit institution in the United Kingdom by the Prudential Regulation Authority of the Bank of England and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority of the Bank of England. The London Branch provides its services to the following categories of clients: banks, funds (including hedge funds, regulated funds and exchange funds), governments and agencies, corporate institutions, financial institutions, M&A clients and high net worth individuals.

The registered office of UBS AG, London Branch is 5 Broadgate, London EC2M 2QS, United Kingdom, telephone +44 20 7567 8000.

CHAPTER 11
TAX CONSIDERATIONS

UK Taxation

The following is a general summary of the UK withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. The comments in this part are based on current UK tax law as applied in England and Wales and the practice of Her Majesty's Revenue and Customs ("**HMRC**") (which may not be binding on HMRC and may be subject to change, sometimes with retrospective effect), in each case as at the latest practicable date before the date of this prospectus. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds. The comments are made on the assumption that the Issuer of the Bonds is resident in the UK for UK tax purposes. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds. The comments do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. Prospective Bondholders should be aware that the particular terms of issue of any series of Bonds may affect the tax treatment of that and other series of Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions (as well as the UK) in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

The references to "interest" in this section mean amounts treated as "interest" for the purposes of UK tax law. The statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

The following description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) or 15(d) (*Substitution of the Issuer*) of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

Payment of Interest by the Issuer on the Bonds

While the Bonds carry a right to interest and are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of UK income tax.

The London Stock Exchange is a recognised stock exchange for these purposes, and accordingly the Bonds will be treated as listed on the London Stock Exchange if they are to be included in the official list by the Financial Conduct Authority and admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the PSM satisfy the condition of being admitted to trading on the London Stock Exchange.

In all other cases, interest on the Bonds will generally fall to be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to the availability of other reliefs under domestic law or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. However, the obligation to withhold will not apply if the relevant interest is paid on Bonds with a Maturity Date of less than one year from the date of issue and which are not issued with the intention, or under a scheme or arrangement the effect of which is to render such Bonds part of: (i) a borrowing with a total term of a year or more; or (ii) part of a borrowing capable of remaining outstanding for a total term of a year or more. If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

Payments by Guarantor or Financial Guarantor

The UK withholding tax treatment of payments by the Guarantor or Financial Guarantor under the terms of the Guarantee or Financial Guarantee in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) is uncertain. In particular, such payments by a Guarantor or Financial Guarantor may not be eligible for the exemptions described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor or Financial Guarantor makes any such payments, these may be subject to UK withholding tax at the basic rate (currently 20 per cent.). If UK withholding tax is imposed, no Guarantor or Financial Guarantor will pay additional amounts in respect of the Bonds.

Foreign Account Tax Compliance Act ("FATCA") Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Bonds that are characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional tranches of a Sub-Class of Bonds that are not distinguishable from other tranches of such Sub-Class issued prior to the expiration of such grandfathering period are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then, withholding agents may treat all Bonds in such Sub-Class, including grandfathered tranches of Bonds of the same Sub-Class, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person would be required to pay additional amounts as a result of the withholding.

CHAPTER 12
SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Banco Santander S.A., BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc and NatWest Markets Plc, and any other dealer appointed from time to time (the "**Dealers**") or to subscribers from whom subscriptions have been procured by the Dealers, in each case pursuant to the amended and restated dealership agreement dated on or about the date of this Prospectus (and as amended from time to time) made between, among others, SWS, the Issuer, the Arranger and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers or subscribers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers or subscribers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom SWS, has each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Selling and Transfer Restrictions of the United States of America

Selling Restrictions

The Bonds and the Guarantees in respect thereof have not been and will not be registered under the Securities Act and may not be offered or sold or, in the case of Bearer Bonds, delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, in the case of Bearer Bonds, that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Bonds: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Transfer Restrictions

Each purchaser of the Bonds and the Guarantees outside the United States pursuant to Regulation S and each subsequent purchaser of such Bonds and the Guarantees in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Bonds and the Guarantees, will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time the Bonds and the Guarantees are purchased will be, the beneficial owner of such Bonds and the Guarantees and: (i) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(b) It understands that such Bonds and the Guarantees have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Bonds and the Guarantees except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(c) It understands that such Bonds, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

"THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."

(d) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prohibition of Sales to EEA and UK Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2017/1129 (as amended or superseded, the "Prospectus Regulation"); and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

United Kingdom

Each Dealer has represented, warranted and agreed that:

(a) **No deposit-taking**: in relation to any Bonds having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Bonds other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) **Financial Promotion**: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(c) **General Compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to

Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one of more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification – In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are capital markets products other than prescribed capital markets products (as defined in the CMP Regulations 2018) and are Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Cayman Islands

No invitation or solicitation will be made to the public in the Cayman Islands to subscribe for the Bonds.

General

Save for obtaining the approval of the Prospectus by the FCA in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Market or the PSM, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where the action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.

CHAPTER 13
GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Bonds thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 9 June 2003 (as approved by resolutions of SWI dated 9 June 2003) and at a meeting of the Board held on 15 July 2003 (as also approved by resolutions of SWI dated 15 July 2003 and SWS dated 15 July 2003).

The update of the Programme and the issue of Bonds thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer passed on:

(i) 18 February 2009 (as approved by a written resolution executed by SWS as shareholder of the Issuer dated 18 February 2009)

(ii) 23 March 2011 (as approved by a written resolution executed by SWS as shareholder of the Issuer dated 23 March 2011);

(iii) 27 February 2013 (as approved by a written resolution executed by SWS as shareholder of the Issuer dated 27 February 2013); and

(iv) 22 November 2019 and 30 April 2020 (as approved by a written resolution executed by SWS as shareholder of the Issuer dated 22 November 2019 and 30 April 2020).

The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the guarantees by each of SWS, SWSGH and SWSH has been duly authorised by resolutions of the Board of Directors of each of SWS, SWSGH and SWSH, respectively, dated 15 July 2003 and further resolutions of:

(i) the committee of the Board of Directors of SWS dated 18 February 2009, 23 March 2011, 27 February 2013;

(ii) the Board of Directors of SWS dated 22 November 2019 and 30 April 2020;

(iii) the Board of Directors of SWSGH dated 18 February 2009, 23 March 2011, 27 February 2013, 22 November 2019 and 30 April 2020; and

(iv) the Board of Directors of SWSH dated 18 February 2009, 23 March 2011, 27 February 2013, 22 November 2019 and 30 April 2020.

Listing of Bonds

The admission of the Programme to listing on the Official List and to trading on the Market and the PSM is expected to take effect on or about 11 May 2020. Any Tranche of Bonds intended to be admitted to listing on the Official List and admitted to trading on the Market or the PSM will be so admitted to listing and trading upon submission to the FCA and the London Stock Exchange (in accordance with their rules and procedures) of the relevant Final Terms and any other information required by the FCA and the London Stock Exchange, subject in each case to the issue of the relevant Bonds. Prior to official listing, dealings will be permitted by the Market or the PSM, as the case may be, in accordance with their respective rules.

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the Market or the PSM will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class.

The listing of the Programme in respect of Bonds was granted on 23 July 2003, updated on 26 May 2005, 13 October 2006, 27 February 2009, 12 April 2011 and 28 February 2013, and is expected to be further updated on 11 May 2020.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the Market or the PSM or any other Stock Exchange or which will be listed on such Stock Exchange as the Issuer and the relevant Dealer(s) may agree.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

(i) the Memorandum and Articles of Association of each of the Issuer and the other Obligors;

(ii) the audited financial statements of SWS for the years ended 31 March 2018 and 31 March 2019;

(iii) the unaudited financial statements of SWS for the six months ended 30 September 2018;

(iv) the unaudited financial statements of SWS for the six months ended 30 September 2019;

(v) the audited financial statements of SWSGH for the years ended 31 March 2018 and 31 March 2019;

(vi) the audited financial statements of SWSH for the years ended 31 March 2018 and 31 March 2019;

(vii) the audited financial statements of the Issuer for the years ended 31 March 2018 and 31 March 2019;

(viii) a copy of this Prospectus;

(ix) a copy of an offering circular dated 17 July 2003 in respect of the Programme;

(x) a copy of an offering circular dated 24 May 2005 in respect of the Programme;

(xi) a copy of a prospectus dated 13 October 2006 in respect of the Programme (as supplemented by a supplemental prospectus dated 12 July 2007);

(xii) a copy of the prospectus dated 27 February 2009 in respect of the Programme;

(xiii) a copy of the Prospectus dated 28 February 2013 in respect of the Programme;

(xiv) each Final Terms relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders);

(xv) each Investors' Report;

(xvi) each Financial Guarantee relating to each Sub-Class of Wrapped Bonds previously issued under the Programme;

(xvii) each G&R Deed;

(xviii) each Issuer/SWS Loan Agreement;

(xix) the Common Terms Agreement;

(xx) the Registered Office Agreement;

(xxi) the Master Definitions Agreement;

(xxii) the STID;

(xxiii) the Indemnification Deeds;

(xxiv) the Security Agreement;

(xxv) the Bond Trust Deed;

(xxvi) each DSR Liquidity Facility Agreement;

(xxvii) each O&M Reserve Facility Agreement (if any);

(xxviii) each Hedging Agreement;

(xxix) the Account Bank Agreement;

(xxx) the Agency Agreement;

(xxxi) the Tax Deeds of Covenant;

(xxxii) the Initial Term Facility Agreement, the Existing RCF Agreement, the 2019 Bridge Facility Agreement, and the Second Artesian Term Facility Agreement; and

(xxxiii) the SWS/SWSG Loan Agreement and related security document.

This Prospectus, and in the case of Bonds to be admitted to the Official List and admitted to trading on the Market or the PSM, the relevant Final Terms, can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code, ISIN, FISN and CFI Code (as applicable) for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial performance or financial position of the Issuer, nor any material adverse change in the financial position nor, save for the potential impact of the outbreak of COVID-19 as described under Chapter 3 "*Risk Factors – Catastrophe Risk – Disruption due to outbreak of coronavirus ("**COVID-19**")*", any material adverse change in the prospects of the Issuer since the date of its last published audited annual financial statements, being 31 March 2019.

There has been no significant change in the financial performance or financial position of SWS since the date of its last published interim accounts, being 30 September 2019, nor, save for the potential impact of the outbreak of COVID-19 as described under Chapter 3 "*Risk Factors – Catastrophe Risk – Disruption due to outbreak of coronavirus ("**COVID-19**")*", any material adverse change in the prospects of SWS since the date of its last published audited annual financial statements, being 31 March 2019.

There has been no significant change in the financial performance or financial position of SWSH, nor, save for the potential impact of the outbreak of COVID-19 as described under Chapter 3 "*Risk Factors – Catastrophe Risk – Disruption due to outbreak of coronavirus ("**COVID-19**")*", any material adverse change in the prospects of SWSH since the date of its last published audited annual financial statements, being 31 March 2019.

There has been no significant change in the financial performance or financial position of SWSGH, nor, save for the potential impact of the outbreak of COVID-19 as described under Chapter 3 "*Risk Factors – Catastrophe Risk – Disruption due to outbreak of coronavirus ("**COVID-19**")*", any material adverse change in the prospects of SWSGH since the date of its last published audited annual financial statements, being 31 March 2019.

There has been no significant change in the financial performance or financial position of the SWS Financing Group, nor, save for the potential impact of the outbreak of COVID-19 as described under Chapter 3 "*Risk Factors – Catastrophe Risk – Disruption due to outbreak of coronavirus ("**COVID-19**")*", any material adverse change in the prospects of the SWS Financing Group since the end of its last financial period for which financial information has been published, being 31 March 2019.

Litigation

Other than as expressly identified in this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the relevant Obligor is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer and/or the Group.

Availability of Financial Statements

The audited annual financial statements of the Issuer and the audited annual financial statements of SWS will be prepared as of 31 March in each year. The Issuer has not published and does not intend to publish any interim financial statements, but SWS intends to publish semi-annual unaudited financial statements. The unaudited interim financial statements of SWS will be prepared as of 30 September in each year. All future audited annual financial statements (and any published interim financial statements) of SWS and the audited annual financial statements of the Issuer will be available free of charge in accordance with "*Documents Available*" above.

Auditors

The auditors of SWS are Deloitte LLP, of 2 New Street Square, London EC4A 3BZ who have audited SWS's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31 March 2019.

Deloitte LLP, of 2 New Street Square, London EC4A 3BZ have audited, without qualification, the financial statements of the Issuer in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31 March 2019.

Deloitte LLP, of 2 New Street Square, London EC4A 3BZ have audited, without qualification, the financial statements of the Issuer in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31 March 2018.

The auditors of SWSGH are Deloitte LLP, of 2 New Street Square, London EC4A 3BZ who have audited SWSGH's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31 March 2019.

The auditors of SWSH are Deloitte LLP, of 2 New Street Square, London EC4A 3BZ who have audited SWSH's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31 March 2018.

Bond Trustee's Reliance on Reports and Legal Opinions

Certain of the reports of accountants and other experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts.

Under the terms of the Programme, the Bond Trustee will not necessarily receive a legal opinion in connection with each issue of Bonds.

Legend

Bonds, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Information in Respect of the Bonds

The issue price and the amount of the relevant Bonds will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds other than the Investors' Report described in Chapter 2 "*Overview of the Programme – Investor Information*". However, see the requirements to deliver an Investors' Report in accordance with the CTA as described in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*"

Material Contracts

SWS has not entered into contracts outside the ordinary course of its business, which could result in SWS or any member of its group being under an obligation or entitlement that is material to SWS's ability to meet its obligation to holders of Bonds in respect of the Bonds being issued.

Potential Conflicts of Interest

In the ordinary course of their business activities, the Arranger, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates (including other members of the SWS Group). Certain of the Dealers or their affiliates that have a lending relationship with the Issuer or the SWS Financing Group routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Bonds issued under the Programme. The Arranger, the Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Miscellaneous

The website of the Issuer is https://www.southernwater.co.uk. The information on https://www.southernwater.co.uk does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.

ANNEX 1
EMPHASIS OF MATTER

SOUTHERN WATER SERVICES (FINANCE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Accounting Policies

The principal accounting policies, which have been applied consistently throughout the current and preceding year, are set out below.

Basis of preparation

Southern Water Services (Finance) Limited is a private company limited by shares, incorporated in the Cayman Islands. The address of the registered office is given on page 4. The nature of the company's operations and its principal activities are set out in the business review on pages 2 to 3.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). Accordingly, the company prepared its financial statements in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The financial statements have not been prepared on a going concern basis, due to management's intention to transfer the assets and liabilities to a UK registered company within the group, however no adjustments to the assets and liabilities were considered necessary and these therefore continue to be valued under the historical cost convention, except for the revaluation of financial instruments. Financial instruments are measured at their fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about Southern Water Services (Finance) Limited (SWSF) as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is included in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group financial statements of Greensands Holdings Limited are available to the public and can be obtained from the address shown in Note 16.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited, the group financial statements are available to the public and can be obtained from the address shown in Note 16.

Adoption of new and revised Standards

This is the first set of the company's annual financial statements where IFRS 9 'Financial Instruments' has been applied. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. There was no material impact resulting from the application of this standard.

During the year IFRS 15 'Revenue from Contracts with Customers' came into effect for companies with annual reporting periods beginning on or after 1 January 2018. This standard is outside the scope for Southern Water Services (Finance) Limited as it has no contracts with customers that fall within the recognition criteria.

Going concern

During the prior year a decision was made by the directors to look to transfer the assets and liabilities of the company to a UK company within the group and ultimately wind-up Southern Water Services (Finance) Limited, ceasing all activity within the Cayman Islands by the end of the year ending March 2019. As at the date of signing these accounts, derivative instruments that had a net fair value of £1,238.3m as at 31 March 2018 have been novated to Southern Water Services Limited. All other assets and liabilities remain within the company as at 31 March 2019 and the company is expected to be wound up by the end of the year to 31 March 2020. As a result, it remains no longer appropriate to adopt the going concern basis in preparing the annual financial statements, however no adjustments were considered necessary to the amounts at which the assets and liabilities are included in these financial statements for either the current or prior year.

Interest income, interest payable and similar income and charges

Interest income, interest payable and similar income and charges are recognised on an accruals basis. The policy for interest income and expense is detailed in the financial instruments policy.

Taxation

The taxation charge in the profit and loss account is based on the company being considered a securitisation company under the UK 'Taxation of Securitisation Companies Regulations 2006' (SI 2006/3296). Therefore, the company does not calculate its UK corporation tax based on its accounting profit or loss. Instead the company applies current tax rates to its retained profits as specified in the documentation governing the securitisation transaction into which the company has entered.

Deferred taxation is tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated but not reversed by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Financial Instruments

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

(i) **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

(iii) **Derecognition of financial assets**

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities

Fixed rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the profit and loss account in the year in which it arises.

Premiums and proceeds from gilt lock agreements received on issue of debt instruments are credited to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 13.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately.

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting and as such, the company does not currently apply hedge accounting.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

INDEX OF DEFINED TERMS

The following terms are used throughout this Prospectus

“**2019 Bridge Facility**” means the revolving credit facilities of an aggregate facility amount of £700,000,000 made available to SWS by the Existing RCF Providers from 31 March 2020.

“**2019 Bridge Facility Agent**” means Banco Santander S.A., London Branch, or any successor thereto.

“**2019 Bridge Facility Agreement**” means the facility agreement dated 11 December 2019, under which the 2019 Bridge Facility is made available to SWS.

“**2019 Bridge Facility Providers**” means the syndicate of banks which together provide the 2019 Bridge Facility, including Banco Santander S.A., London Branch, National Westminster Bank Plc and Lloyds Bank plc.

“**A Category**” means a credit rating of at least A- from S&P, A3 from Moody’s or A- from Fitch.

“**Acceleration of Liabilities**” or “**Acceleration**” means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action), including:

(a) the delivery of a termination notice from a Finance Lessor or SWS terminating the leasing of Equipment under a Finance Lease;

(b) the delivery of a notice by SWS or a Finance Lessor requesting the prepayment of any Rentals under a Finance Lease;

(c) the early termination of any hedging obligations (whether by reason of an event of default, termination event or other right of early termination) under a Hedging Agreement; or

(d) the taking of any other steps to recover any payment due in respect of any Secured Liabilities, which have matured for repayment and are overdue, by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents and in accordance with the STID,

and “**acceleration**” and “**accelerate**” will be construed accordingly.

“**Accession Memorandum**” means: (a) with respect to the STID, each memorandum entered into or to be entered into pursuant to Clause 2 (*Accession*) or Clause 19 (*Benefit of Deed*) (as applicable) of the STID; and (b) with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 5 to the Bond Trust Deed pursuant to which a Financial Guarantor accedes to the Bond Trust Deed.

“**Account**” means any bank account of any Obligor.

“**Account Bank**” means HSBC Bank plc or any successor account bank appointed pursuant to the Account Bank Agreement.

"**Account Bank Agreement**"	means the account bank agreement dated 24 January 2019 (as amended and/or supplemented from time to time) between, among others, the Obligors, the Standstill Cash Manager, the Account Bank and the Security Trustee.
"**Additional Secured Creditor**"	means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the provisions of the STID.
"**Adjusted Lease Reserve Amount**"	means, in respect of any Finance Lease and from the commencement of a Standstill in any 12-month period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such 12-month period relating to such Finance Lease as calculated pursuant to Paragraph 5.10 of Schedule 12 (*Cash Management*) to the CTA.
"**Advance**"	means any advance or other credit accommodation provided under any Authorised Credit Facility.
"**Affiliate**"	means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Affiliate" has the meaning given to it in that Hedging Agreement).
"**Agency Agreement**"	means the amended and restated agreement dated on or about the date of this Prospectus (as amended, supplemented, restated and/or novated from time to time) between the Issuer, SWS and the Agents referred to therein under which, among other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.
"**Agent**"	means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or a Calculation Agency Agreement.
"**Agent Bank**"	means Deutsche Bank AG London (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.
"**AMP**"	means an asset management plan submitted by SWS to the economic regulator in respect of a five-year period.
"**AMP Period**"	means a five-year period in relation to which an asset management plan is submitted by SWS to the economic regulator, and in this respect "**AMP2 Period**" means the AMP Period commencing on 1 April 1995; "**AMP3 Period**" means the AMP Period commencing on 1 April 2000; "**AMP4 Period**" means the AMP Period commencing on 1 April 2005; "**AMP5 Period**" means the AMP Period commencing on 1 April 2010; "**AMP6 Period**" means the AMP Period commencing on 1 April 2015; and "**AMP7 Period**" means the AMP Period commencing on 1 April 2020.
"**AMP2**"	means the asset management plan prepared for the AMP2 Period.

"**AMP3**"	means the asset management plan prepared for the AMP3 Period.
"**AMP4**"	means the asset management plan prepared for the AMP4 Period.
"**AMP5**"	means the asset management plan prepared for the AMP5 Period.
"**AMP6**"	means the asset management plan prepared for the AMP6 Period.
"**Ancillary Documents**"	means the valuations, reports, legal opinions, tax opinions, accountants' reports and the like addressed to or given for the benefit of the Security Trustee, any Obligor or any Secured Creditor in respect of the Security Assets.
"**Annual Finance Charge**"	means, in respect of each 12-month period commencing 1 April in any subsequent year, the aggregate of all interest due or to become due (after taking account of the impact on interest rates of any Hedging Agreements then in place) during that 12-month period on the Class A Debt and the Class B Debt (including, for the avoidance of doubt, all interest due on Class B Debt but not yet payable as a result of the restrictions imposed upon the payment of that indebtedness contained in the Finance Documents), any Financial Guarantee Fee payable to any Financial Guarantor within that 12-month period, all fees and commissions payable to each Finance Party within that 12-month period and the Lease Reserve Amounts and Adjusted Lease Reserve Amounts falling due in that 12-month period, excluding all indexation of principal, all costs incurred in raising such debt, amortisation of the costs of issue of such debt in that 12-month period and all other costs incurred in connection with the raising of such debt) less all interest received or, in respect of forward-looking ratios, receivable by any member of the SWS Financing Group from a third party during such period (excluding any interest received or receivable from SWSG under the SWS/SWSG Loan Agreement).
"**Applicable Accounting Principles**"	means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time and making such adjustments (if any) as the directors of the relevant company may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.
"**Appointed Business**"	means the appointed business of a "relevant undertaker" (as that term is defined by the WIA).
"**Arranger**"	means HSBC Bank PLC, the arranger of the Programme.
"**Artesian**"	means Artesian Finance plc.
"**Artesian II**"	means Artesian Finance II plc.
"**Associate**"	means: (a) any person who has a Controlling interest in any member of the SWS Financing Group; (b) any person who, directly or indirectly, holds at least 15 per cent. or more of the voting share capital in any member of the SWS Financing Group;

(c) any person who is Controlled by a member of the SWS Financing Group; or

(d) any person in which a member of the SWS Financing Group holds, directly or indirectly, at least 15 per cent. or more of the voting share capital,

and, in each case, any Affiliate of such person.

"**Auditors**" means Deloitte LLP or such other firm of accountants of international repute as may be appointed by SWS in accordance with the CTA as the Auditors for the SWS Financing Group.

"**Authorised Credit Facility**" means any facility or agreement entered into by the Issuer or SWS for Class A Debt or Class B Debt or Subordinated Debt as permitted by the terms of the CTA or for the issue of Financial Guarantees in relation thereto, the providers of which have acceded to the STID and the CTA, and includes the Liquidity Facilities, the Existing RCF Agreement, the 2019 Bridge Facility Agreement, the Initial Term Facility Agreement, the Issuer/SWS Loan Agreements, the Bonds, the Hedging Agreements, the Financial Guarantee Fee Letters, the G&R Deeds, the Second Artesian Term Facility Agreement and any other document entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities or agreements (excluding, however, the Dealership Agreement and the Common Agreements).

"**Authorised Credit Provider**" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility and includes each Financial Guarantor for so long as any Financial Guarantee issued by that Financial Guarantor is outstanding, and each Bondholder.

"**Authorised Investments**" means:

(a) securities issued by the Government of UK;

(b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-term Rating;

(c) any other obligations, provided that, in each case, the relevant investment has the Minimum Short-term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or

(d) any money market funds or equivalent investments which have a rating of at least AAA by S&P or V-1+ by Fitch or Aaa by Moody's.

"**Authorised Signatory**"	means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person's authority to act.
"**Base Currency**"	means pounds sterling.
"**Bearer Bonds**"	means those of the Bonds which are in bearer form.
"**Bond Trust Deed**"	means the bond trust deed dated the Initial Issue Date (and as amended and/or supplemented from time to time) between, among others, the Issuer, the Initial Financial Guarantors and the Bond Trustee, under which Series 1 Bonds, Series 2 Bonds, Series 3 Bonds, Series 4 Bonds and Series 5 Bonds are constituted and any further Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.
"**Bond Trustee**"	means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed for and on behalf of the relevant Bondholders.
"**Bond Trustee Reserved Matters**"	means those matters set out in Part B (*Bond Trustee Reserved Matters*) of Schedule 3 to the STID and Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
"**Bondholders**"	means the holders from time to time of the Bonds.
"**Bonds**"	means the Class A Bonds and/or the Class B Bonds, as the context may require, and "**Bond**" shall be construed accordingly.
"**Bridge Facility Agreement**"	means the £1,900,000,000 credit agreement dated 8 March 2002, as amended from time to time, between, among others, the Issuer as original borrower and original guarantor and The Royal Bank of Scotland plc as arranger, agent and security trustee under which the relevant lenders made advances that funded the First Aqua Acquisition and funded SWS's working capital requirements and general corporate expenditure. All amounts payable by the SWS Financing Group to the lenders under such credit agreement have been discharged in full.
"**BSI**"	means the British Standards Institution.
"**Business**"	means Appointed Business and Permitted Non-Appointed Business or otherwise as permitted under the Finance Documents.
"**Business Day**"	means (other than in any Hedging Agreement where "Business Day" has the meaning given to it in that Hedging Agreement): (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms;

(b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in U.S. dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms; and

(c) in relation to the definition of Lease Calculation Date, a day on which commercial banks and foreign exchange markets settle payments generally in London.

"**Calculation Agency Agreement**" means, in relation to the Bonds of any Tranche, an agreement in or substantially in the form of Schedule 1 to the Agency Agreement.

"**Calculation Agent**" means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

"**Calculation Date**" means (other than in any Hedging Agreement where "**Calculation Date**" has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 30 September 2003 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

"**Capex Contract**" means any agreement pursuant to which SWS outsources any investment, construction works and other Capital Expenditure.

"**Capex Reserve Account**" means the account of SWS titled "Capex Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Capital Expenditure**" means Capital Maintenance Expenditure and any investment expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the SWS Business Financial Model) relating to increases in capacity or enhancement of service levels, quality or security of supply.

"**Capital Maintenance Expenditure**" means investment expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the SWS Business Financial Model) on maintaining base service levels in the Appointed Business but excluding any investment expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply.

"**Cash Expenses**" means the aggregate of all expenses including capital expenditure incurred by SWS in any period (excluding depreciation, IRC and interest on Financial Indebtedness).

“**Cash Manager**”	means The Royal Bank of Scotland plc during a Standstill Period in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager, and at all other times SWS.
“**CAT**”	means the Competition Appeal Tribunal of the United Kingdom.
“**CCD**”	means expenditure designated under the heading “current cost depreciation” in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to SWS in the Director General’s most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation, provided that, for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, “**CCD**” shall be SWS’s good faith, honestly held present estimate of such expenditure for such Test Period.
“**CGN**”	means a Temporary Global Bond in the form set out in Part A or a Permanent Global Bond in the form set out in Part B, in each case, of Schedule 2 to the Bond Trust Deed.
“**Class**”	means each class of Bonds, the available Classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds.
“**Class A Adjusted ICR**”	means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.
“**Class A Average Adjusted ICR**”	means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period comprised in a Rolling Average divided by three.
“**Class A Bonds**”	means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.
“**Class A Debt**”	means any financial accommodation that is, for the purposes of the STID, to be treated as Class A Debt and includes all debt outstanding under: (a) the Class A Wrapped Bonds and the Class A Unwrapped Bonds (if any) issued by the Issuer on or after the Initial Issue Date; (b) the Initial Term Facility, the Second Artesian Term Facility Agreement, the Existing RCF and the 2019 Bridge Facility; (c) all Interest Rate Hedging Agreements and the Currency Hedging Agreements in relation to Class A Debt; (d) the DSR Liquidity Facility and any O&M Reserve Facility entered into after the Initial Issue Date; (e) the Financial Guarantee Fee Letters; and (f) each G&R Deed in respect of Class A Wrapped Debt.

"**Class A Debt Instructing Group**" or "**Class A DIG**"

means a group of representatives (each, a "**Class A DIG Representative**") of Qualifying Class A Debt, comprising:

(a) in respect of each Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt;

(b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds) and each Sub-Class of Class A Unwrapped Bonds, the Bond Trustee;

(c) in respect of the 2019 Bridge Facility Agreement, the 2019 Bridge Facility Agent, in respect of the Existing RCF Agreement, the Existing RCF Agent, in respect of the Initial Term Facility, Artesian II and, in respect of the Second Artesian Term Facility, Financial Security Assurance (U.K.) Limited; and

(d) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (c) above (excluding liabilities under all Interest Rate Hedging Agreements and under Currency Hedging Agreements in respect of the Class A Debt and under the Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum or the STID as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"**Class A Debt Interest**"

means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

(a) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or SWS's obligations under or in connection with all Class A Debt and any Financial Indebtedness which falls under paragraph (e) of the definition of "Permitted Financial Indebtedness";

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Debt; and

(c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or SWS's obligations under and in connection with all Class A Debt,

in each case, during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Class A Debt and/or Class B Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt and/or Class B Debt) less all interest received or in respect of forward-looking ratios receivable by any member of the SWS Financing Group from a third party during such period (excluding any interest received or receivable by SWS under the SWS/SWSG Loan Agreement).

"**Class A Debt Provider**" means a provider of, or Financial Guarantor of, Class A Debt.

"**Class A ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow for such Test Period to Class A Debt Interest for such Test Period.

"**Class A Net Indebtedness**" means, as at any date, all the Issuer's and SWS's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt on such date and the nominal amount of any Financial Indebtedness falling within paragraph (e) of the definition of "Permitted Financial Indebtedness" which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date including all indexation accrued on any such liabilities which are indexed together with any interest due but unpaid up to and including such date (after taking account of the effect of any relevant Interest Rate Hedging Agreements then in force) and less the value of all Authorised Investments and other amounts standing to the credit of any Account (other than an amount equal to the Excluded Insurance Proceeds Amount and an amount equal to the aggregate of any amounts which represent Customer Rebates or Distributions which have been declared but not paid on such date); where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated: (a) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; and (b) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date.

"**Class A RAR**" means, on any Calculation Date, the ratio of Class A Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Class A Required Balance**" means, on any Payment Date, the following 12 months' interest forecast to be due on the Class A Debt.

"**Class A Unwrapped Bonds**"	means the Class A Bonds that do not have the benefit of a guarantee from a Financial Guarantor.
"**Class A Unwrapped Debt**"	means Class A Debt that does not have the benefit of a guarantee from a Financial Guarantor.
"**Class A Wrapped Bonds**"	means the Class A Bonds that have the benefit of a guarantee from a Financial Guarantor.
"**Class A Wrapped Debt**"	means Class A Debt that has the benefit of a guarantee from a Financial Guarantor.
"**Class A1 Preference Shares**"	means the fixed dividend (£40 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS.
"**Class A2 Preference Shares**"	means the cumulative participating redeemable preference shares 2038 of 1p each in the capital of SWS.
"**Class B Bonds**"	means the Class B Wrapped Bonds and the Class B Unwrapped Bonds.
"**Class B Debt**"	means any financial accommodation that is, for the purposes of the STID, to be treated as Class B Debt and includes all debt outstanding under the Class B Bonds and all Currency Hedging Agreements in relation to Class B Debt.
"**Class B Debt Instructing Group**" or "**Class B DIG**"	means a group of representatives (each, a "**Class B DIG Representative**") of Qualifying Class B Debt, comprising: (a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds), the Financial Guarantor of such Sub-Class of Class B Wrapped Bonds; (b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; (c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above (excluding liabilities under the Currency Hedging Agreements in relation to Class B Debt) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class B DIG Representative, each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.
"**Class B Debt Provider**"	means any provider of, or Financial Guarantor of, Class B Debt.

“**Class B Preference Shares**”	means the fixed dividend (£70 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS.
“**Class B Required Balance**”	means, on any Payment Date, the next 12 months’ interest forecast to be due on the Class B Debt.
“**Class B Unwrapped Bonds**”	means the Class B Bonds that do not have the benefit of a guarantee from a Financial Guarantor.
“**Class B Unwrapped Debt**”	means Class B Debt that does not have the benefit of a guarantee from a Financial Guarantor.
“**Class B Wrapped Bonds**”	means the Class B Bonds that have the benefit of a guarantee from a Financial Guarantor.
“**Class B Wrapped Debt**”	means Class B Debt that has the benefit of a guarantee from a Financial Guarantor.
“**Clearstream, Luxembourg**”	means Clearstream Banking, *société anonyme*.
“**Common Agreements**”	means the Security Documents, the Bond Trust Deed, the Common Terms Agreement, the Master Definitions Agreement, the Account Bank Agreement, the CP Agreement, the SW Tax Deeds of Covenant, the SWS/SWSG Loan Agreement, the SWSG Security Agreement, the SWS Preference Share Deed, the Calculation Agency Agreement and any Finance Document to which no Secured Creditor other than the Security Trustee and/or the Issuer and/or any Agent is a party.
“**Common Safekeeper**”	means, in relation to a Tranche where the relevant Global Bond is a NGN or the relevant Global Bond Certificate is held under the NSS, the common safekeeper appointed by Euroclear and/or Clearstream, Luxembourg in respect of such Bonds.
“**Common Terms Agreement**” or “**CTA**”	means the common terms agreement entered into on the Initial Issue Date (as amended, supplemented, restated and/or novated from time to time) between, among others, the Obligors, the Initial Financial Guarantors and the Security Trustee, and which contains certain representations and covenants of the Obligors and Events of Default.
“**Companies Act 1985**”	means the United Kingdom Companies Act 1985, as amended or re-enacted from time to time.
“**Competition Act**”	means the United Kingdom Competition Act 1998.
“**Compliance Certificate**”	means a certificate, substantially in the form of Schedule 10 (*Form of Compliance Certificate*) to the CTA in which each of the Issuer and SWS, periodically, provides certain financial statements to the Security Trustee and each Rating Agency as required by the CTA.
“**Conditions**”	means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.
“**Construction Output Price Index**”	means the index issued by the Office for National Statistics varied from time to time, relating to price levels of new build construction

	based on a combination of logged values of tender price indices, labour and materials cost indices and on the value of new construction orders in the United Kingdom.
"**Contractor**"	means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement or Capex Contract.
"**Control**"	of one person by another person means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) and whether acting alone or in concert with another or others has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to "**Controlled**" and "**Controlling**" shall be construed accordingly).
"**Coupon**"	means an interest coupon appertaining to a Definitive Bond (other than a Zero Coupon Bond) and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).
"**Couponholders**"	means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.
"**Court**"	means the High Court of England and Wales.
"**CP Agreement**"	means the conditions precedent agreement dated the Initial Issue Date (as amended from time to time) between, among others, the Bond Trustee, the Security Trustee and the Obligors.
"**CPI**" or "**Consumer Price Index**"	means the all items consumer prices index for the United Kingdom Published by the Office for National Statistics or at any future date such other index of consumer prices as may have then replaced it.
"**CPIH**"	means the all items consumer prices index including owner occupiers' housing costs for the United Kingdom Published by the Office for National Statistics or at any future date such other index of consumer prices as may have then replaced it.
"**CSP**"	means the Company Stakeholder Plan for SWS employees.
"**Currency Hedging Agreement**"	means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction.
"**Customer Rebates**"	means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by SWS to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if SWS had established prices at the full price cap available to it under the Instrument of Appointment.
"**Date Prior**"	means, at any time, the date which is one day before the next Periodic Review Effective Date.

"**Dealers**"	means Banco Santander S.A., BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc and NatWest Markets Plc and any other entity which the Issuer and the other Obligors may appoint as a Dealer and notice of whose appointment has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Dealership Agreement and notice of such termination has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Dealership Agreement, and references to a "**relevant Dealer**" or the "**relevant Dealer(s)**" mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranches and "**Dealer**" means any one of them.
"**Dealership Agreement**"	means the amended and restated agreement dated on or about the date of this Prospectus between the Issuer, the Obligors and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.
"**Debt Instructing Group**" or "**DIG**"	means the Class A DIG or, following the repayment in full of the Class A Debt, the Class B DIG.
"**Debt Service Payment Account**"	means the account of the Issuer titled "Debt Service Payment Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.
"**Debt Service Reserve Account**"	means the account of the Issuer titled "Debt Service Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.
"**Default**"	means: (a) an Event of Default; (b) a Trigger Event; or (c) a Potential Event of Default.
"**Default Situation**"	means any period during which there subsists: (a) a Standstill Period; or (b) an Event of Default.
"**Definitive Bond**"	means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms), such Bearer Bond in definitive form being in the form or substantially in the

form set out in Schedule 2, Part C to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

"**DEFRA**" means the United Kingdom Department for the Environment, Food and Rural Affairs.

"**Determination Date**" means the date which is seven Business Days prior to each Payment Date.

"**DETR**" means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to DEFRA.

"**DGWS**" or "**Director General**" means the Director General of Water Services appointed under Section 1 of the WIA.

"**DIG Directions Request**" means a written notice of each DIG Proposal sent by the Security Trustee to the relevant DIG Representatives pursuant to the STID.

"**DIG Proposal**" means a proposal pursuant to the STID requiring a Majority Creditor decision in relation to the resignation of the Security Trustee or any vote to terminate or extend Standstill in accordance with the STID.

"**DIG Representatives**" means the Class A DIG Representative, the Class B DIG Representative or the Senior Mezzanine Facility Agent as the context requires, and "**DIG Representative**" means any of them.

"**Directors**" means the Board of Directors for the time being of the Issuer or, as the case may be, the relevant Obligor.

"**Discharge Date**" means the date on which all obligations of the Issuer and SWS under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.

"**Distribution**" means, other than in respect of payments under the SWS Preference Shares or Subordinated Debt, any payments (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than:

(a) payments made to such persons pursuant to arrangements entered into for the provision of management and know-how services and which are entered into on bona fide arm's length terms in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed £10,000,000 (indexed) in any consecutive 12-month period; or

(b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that, if any Outsourcing Agreement and/or Capex Contract should cease to comply with the Outsourcing Policy, all payments thereunder made by SWS shall only be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which SWS became aware of such non-compliance; or

(c) payments made to such persons pursuant to arrangements entered into on terms that are not bona fide and arm's length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed £500,000 (indexed) in any consecutive 12-month period; or

(d) payments to The Royal Bank of Scotland plc under or in relation to any Authorised Credit Facility, the Account Bank Agreement or the CTA or in relation to the making by SWS or the Issuer of any Authorised Investments.

"**Drought Order**" means Emergency Drought Order or Ordinary Drought Order as the case may be.

"**Drought Permit**" means a permit granted by the EA that allows a Regulated Company to take water from new sources, or to increase the amount of water taken from existing sources.

"**DSR Liquidity Facility**" means a debt service reserve liquidity facility made available under a DSR Liquidity Facility Agreement.

"**DSR Liquidity Facility Agreement**" means any agreement establishing a DSR Liquidity Facility.

"**DSR Liquidity Facility Provider**" means The Royal Bank of Scotland plc, or any other lender under a DSR Liquidity Facility Agreement.

"**Dual Currency Bonds**" means a Bond in respect of which the amount payable (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

"**DWI**" means the United Kingdom Drinking Water Inspectorate.

"**EA**" means the United Kingdom Environment Agency.

"**Early Redemption Amount**" has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

"**EIN Signatories**" means the DIG Representatives representing 66 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt (or, following the repayment in full of the Class A Debt, the Qualifying Class B Debt) after excluding the Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee in its absolute discretion has not voted.

"**Emergency**"	means the disruption of the normal service of the provision of water or wastewater services which is treated as an emergency under SWS's policies, standards and procedures for emergency planning manual (EMPROC) (as amended from time to time).
"**Emergency Drought Order**"	means an order granted by Defra that allows a Regulated Company to limit usage "for such purposes as it thinks fit", and to set up standpipes or water tanks to provide water during rota cuts.
"**Emergency Instruction Notice**"	means a notice setting out the written instructions of the EIN Signatories given to the Security Trustee after (in the case of an STID Proposal) the date specified in the STID Directions Request, being not less than 10 Business Days or (in the case of a DIG Proposal) the date specified in the DIG Directions Request being not less than five Business Days after the date that the STID Directions Request or DIG Directions Request (as applicable) is deemed to be given in accordance with Clause 17.3 (*Effectiveness*) of the Common Terms Agreement.
"**Emergency Instruction Procedure**"	means an emergency instruction procedure provided for in the Intercreditor Arrangements, subject to Entrenched Rights and Reserved Matters, to cater for circumstances when a Default Situation is subsisting, and certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings.
"**Enforcement Action**"	means any step (other than the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease) that a Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document following the occurrence of an Event of Default, including the declaration of an Event of Default, the institution of proceedings, the making of a demand for payment under a Guarantee, the making of a demand for cash collateral under a Guarantee or the Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted Hedge Termination) by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents.
"**Enforcement Order**"	means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA.
"**Enterprise Act**"	means the Enterprise Act 2002.
"**Entrenched Rights**"	means the rights of the Secured Creditors provided by the terms of Clauses 8.3 to 8.9 (inclusive) of the STID and reproduced in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
"**Entrenched Rights or Reserved Matters Notice**"	means a notice sent by a Secured Creditor (or, where applicable, its Secured Creditor Representative) in response to an STID Directions Request certifying that the consent of such Secured

Creditor (or, where applicable, its Secured Creditor Representative) to implementation of the STID Proposal, in relation to which the STID Directions Request is given, is required.

"**Environmental Approvals**"	means any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by SWS.
"**Environmental Claim**"	means any claim, proceeding, formal notice or investigation by any person pursuant to any Environmental Law.
"**Environmental Law**"	means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which SWS or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.
"**Environmental Permits**" or "**Environmental Approvals**"	shall, in either case where used, mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by SWS.
"**Equipment**"	means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease.
"**Equivalent Amount**"	means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.
"**EU**"	means the European Union.
"**Euro**"	means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.
"**Euroclear**"	means Euroclear Bank S.A./N.V.
"**Event of Default**"	means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Event of Default" has the meaning given to it in that Hedging Agreement) an event specified as such in Schedule 7 to the CTA (*Events of Default*) as more particularly described in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
"**Exchange Rate**"	means the spot rate at which the Non-Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m.: (a) for the purposes of Clause 9.3 (*Notice to Secured Creditors of STID Proposal*) and Clause 9.6 (*DIG Directions*

Request) of the STID, respectively, on the date that the STID Proposal or DIG Proposal (as applicable) is dated; and

(b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,

and, in each case, as notified by the Agent Bank to the Security Trustee.

"**Excluded Accounts**"	means the Issuer's O&M Reserve Account and Debt Service Reserve Account to the extent that the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility.
"**Excluded Agreement**"	has the meaning set out in the MDA.
"**Excluded Insurance Proceeds Amount**"	means, at any date, the aggregate of all proceeds of insurance received by SWS to cover the capital cost of reinstatement of assets which have not been applied by SWS in accordance with paragraph 6.5 of Schedule 12 (*Cash Management*) to the CTA; provided that, if such aggregate is an amount less than £5,000,000 (indexed), then the "Excluded Insurance Proceeds Amount" on such date shall be zero.
"**Existing Authorised Credit Facilities**"	means the Existing RCF, the 2019 Bridge Facility, the Initial Term Facility and the Second Artesian Term Facility.
"**Existing DSR Liquidity Facility**"	means the DSR Liquidity Facility currently made available under the Existing DSR Liquidity Facility Agreement.
"**Existing DSR Liquidity Facility Agreement**"	means the DSR Liquidity Facility Agreement dated 18 March 2019 between, among others, the Issuer and the Existing DSR Liquidity Facility Providers (as renewed from time to time).
"**Existing DSR Liquidity Facility Providers**"	means Abbey National Treasury Services Plc, Barclays Bank PLC, BNP Paribas, London Branch, HSBC Bank plc and The Royal Bank of Scotland plc or their respective successors.
"**Existing Hedging Agreements**"	means the interest rate transactions entered into by the Issuer with the Initial Hedge Counterparties on or prior to the Initial Issue Date, as amended from time to time.
"**Existing RCF**"	means the revolving credit facilities of an aggregate facility amount of £330,000,000 made available to SWS by the Existing RCF Providers from 18 March 2019.
"**Existing RCF Agent**"	means Banco Santander S.A., London Branch, or any successor thereto.
"**Existing RCF Agreement**"	means a facility agreement dated 18 March 2019, under which the Existing RCF is made available to SWS.
"**Existing RCF Providers**"	means the syndicate of banks which together provide the Existing RCF, including BNP Paribas, London Branch, HSBC Bank plc, Lloyds Bank Plc, Santander UK Plc, Sumitomo Mitsui Banking Corporation, London Branch and National Westminster Bank Plc.

"**Extraordinary Resolution**" means a resolution passed by a meeting of Bondholders, duly convened and held in accordance with the Bond Trust Deed, by a majority of not less than three-quarters of the votes cast at such meeting.

"**Facility Agent**" means any facility agent under any Authorised Credit Facility.

"**FG Event of Default**" means:

(A) in relation to each of MBIA Assurance S.A. and MBIA UK (now Assured Guaranty, as described herein):

(a) any Guaranteed Amount which is Due for Payment (each as defined under the relevant Financial Guarantee) is unpaid by reason of non-payment by the Issuer and is not paid by such Financial Guarantor on the date stipulated in the relevant Financial Guarantee;

(b) such Financial Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the relevant Financial Guarantee or seeks to do so;

(c) such Financial Guarantor:

(i) presents any petition, commences any case or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including as administrative receiver or manager), conciliator, trustee, assignee, custodian, sequestrator, liquidator or similar official under any Bankruptcy Law, of such Financial Guarantor (or, as the case may be, of a material part of its property or assets) under any Bankruptcy Law;

(ii) makes or enters into any general assignment, composition, arrangement (including a voluntary arrangement under the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors;

(iii) has a final and non-appealable order for relief entered against it under any Bankruptcy Law; or

(iv) has a final and non-appealable order, judgment or decree of a court of competent jurisdiction entered against it appointing any conciliator, receiver, administrative receiver, trustee, assignee, custodian, sequestrator, liquidator, administrator or similar official under any Bankruptcy Law (each, a "**Custodian**") for such Financial Guarantor or all or any material portion of its property or authorising the taking of its possession by a Custodian of such Financial Guarantor;

(B) in relation to Assured Guaranty only, means the occurrence of the following:

(a) any amount which is due for payment by Assured Guaranty under the relevant Financial Guarantee is not paid on the due date;

(b) Assured Guaranty disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the relevant Financial Guarantee or seeks to do so;

(c)

(i) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for relief under any Insolvency Law in any applicable jurisdiction against Assured Guaranty;

(ii) an encumbrancer takes possession of a material part of Assured Guaranty's property or assets; or

(iii) the appointment of an administrator or receiver (including an administrative receiver or manager), conciliator, trustee, assignee, custodian, sequestrator, liquidator or similar official under any Insolvency Law, of Assured Guaranty (or, as the case may be, of a material part of its property or assets); or

(d) Assured Guaranty:

(i) presents any petition or takes any formal steps or proceedings for the winding-up, or the appointment of an administrator or receiver (including an administrative receiver or manager), conciliator, trustee, assignee, custodian, sequestrator, liquidator or similar official under any Insolvency Law, of Assured Guaranty (or, as the case may be, of a material part of its property or assets);

(ii) makes or enters into any general assignment, composition, arrangement (including a voluntary arrangement under Part I of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors;

(iii) becomes unable to pay its debts within the meaning of section 123(2) or section 123(1)(e) of such Insolvency Act or admits in writing its inability, or fails generally, to pay its debts as they become due; or

(e) at any time it is or becomes unlawful for Assured Guaranty to perform or comply with any part of all of its obligations under the relevant Financial Guarantee or any of its obligations thereunder are not or cease to be legal, valid or binding; and

(C) in relation to any other Financial Guarantor, such events as are specified in that Financial Guarantor's G&R Deed or equivalent document and, in relation to Wrapped Bonds, set out in the relevant Final Terms.

For the purpose of this definition, "**Bankruptcy Law**" means: (i) to the extent applicable, in relation to MBIA Assurance S.A. (now Assured Guaranty, as described herein) only, articles L260-1 et seq. and L611-1 et seq. of the French Commercial Code, any similar or future federal or state bankruptcy, insolvency, reorganisation, moratorium, rehabilitation, fraudulent conveyance or similar law, statute or regulation of the French Republic or of any other applicable jurisdiction for the relief of debtors; and (ii) in relation to MBIA UK (now Assured Guaranty, as described herein) only, any applicable United Kingdom bankruptcy or insolvency law, including the Enterprise Act 2002, the Insolvency Act 2000, the Insolvency Act 1986, the Insolvency Rules 1986, the Insolvency Regulations 1994 or any legislation passed in substitution or replacement thereof or amendment thereof or similar law, statute or regulation for the relief of debtors of the United Kingdom or any other applicable jurisdiction.

For the purpose of this definition and in relation to Assured Guaranty only, "**Insolvency Law**" means any applicable United Kingdom bankruptcy or insolvency law, including the Enterprise Act 2002, the Insolvency Act 2000, the Insolvency Act 1986, the Insolvency Rules 1986, the Insolvency Regulations 1994 or any legislation passed in substitution, replacement or supplement thereof or amendment thereof or similar law, statute or regulation for the relief of debtors of the United Kingdom or any other applicable jurisdiction.

"**FG Excepted Amounts**" means any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Coupon Amounts.

"**Fifth Issue Date**" means 17 July 2007.

"**Fifth Issuer/SWS Loan Agreement**" means the loan agreement entered into between the Issuer and SWS on 17 July 2007.

"**Final Determination**" means the final price determination made by the Director General on a five-yearly basis.

"**Final Terms**" means the Final Terms issued in relation to each Tranche or Sub-Class of Bonds as a supplement to the Conditions and giving details of the Tranche or Sub-Class.

"**Finance Documents**" means:

(a) the Security Documents;

(b) the Bond Trust Deed;

(c) the Bonds (including the applicable Final Terms);

(d) the Financial Guarantees;

(e) the G&R Deeds;

(f) the Financial Guarantee Fee Letters;

(g) the Finance Lease Documents;

(h) the Hedging Agreements;

(i) the Common Terms Agreement;

(j) the Issuer/SWS Loan Agreements;

(k) the Existing RCF Agreement;

(l) the 2019 Bridge Facility Agreement;

(m) the Initial Term Facility Agreement;

(n) the Second Artesian Term Facility Agreement;

(o) the Liquidity Facility Agreements;

(p) the Agency Agreement;

(q) the Mezzanine Facility Agreements;

(r) the Master Definitions Agreement;

(s) the Account Bank Agreement;

(t) the CP Agreement;

(u) any other Authorised Credit Facilities;

(v) the Tax Deeds of Covenant;

(w) the Indemnification Deeds;

(x) the SWS/SWSG Loan Agreement and any related security document;

(y) SWS Preference Share Deed; and

(z) each agreement or other instrument between SWS or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by SWS or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum for such Additional Secured Creditor.

"**Finance Lease Documents**" means each Finance Lease together with any related or ancillary documentation.

"**Finance Leases**" means any finance lease entered into by SWS or the Issuer in respect of plant, machinery, software, computer systems or equipment (the counterparty to which has acceded to the terms of the STID and the CTA) permitted to be entered into under the terms of the CTA, and, each, a "**Finance Lease**".

"**Finance Lessors**" means any person entering into a Finance Lease with SWS, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each, a "**Finance Lessor**").

"**Finance Party**" means any person providing financial accommodation pursuant to an Authorised Credit Facility, including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

"**Financial Guarantee Fee**" means any fees payable to the Financial Guarantor under a Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**"	means any letter or other agreement between a Financial Guarantor and one or more of the Obligors setting the terms on which premia are payable in relation to one or more Financial Guarantees issued or to be issued by that Financial Guarantor and includes the MBIA Financial Guarantee Fee Letter.
"**Financial Guarantees**"	means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Debt and includes the Initial Financial Guarantees, and "**Financial Guarantee**" shall be construed accordingly.
"**Financial Guarantor**"	means any person, including the Initial Financial Guarantors, which provides a financial guarantee, including the Financial Guarantees, in respect of any of the Wrapped Debt, and "**Financial Guarantors**" means all of them if there is more than one at any time.
"**Financial Indebtedness**"	means (without double counting) any indebtedness for or in respect of: (a) moneys borrowed or raised (whether or not for cash); (b) any documentary or standby letter of credit facility; (c) any acceptance credit; (d) any bond, note, debenture, loan stock or other similar instrument; (e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such; (f) any amount raised pursuant to any issue of shares which are capable of redemption; (g) receivables sold or discounted (other than on a non-recourse basis to any member of the SWS Financing Group); (h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days; (i) any termination amount due from any member of the SWS Financing Group in respect of any Treasury Transaction that has terminated; (j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of SWS's trading and upon terms usual for such trade);

(k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and

(l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above (other than any guarantee or indemnity in respect of obligations owed by one member of the SWS Financing Group to another).

"**Financial Statements**"	means, at any time, the financial statements of an Obligor, consolidated where applicable, most recently delivered to the Security Trustee.
"**Financial Year**"	means the 12 months ending on 31 March in each year or such other period as may be approved by the Security Trustee.
"**First Aqua Acquisition**"	means the acquisition of Southern Water (NR) Limited and its subsidiaries (including SWS) from Scottish Power UK plc in April 2002.
"**Fitch**"	means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.
"**Fixed Rate Bond**"	means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).
"**Floating Rate Bond**"	means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).
"**Form of Transfer**"	means the form of transfer endorsed on an Individual Bond Certificate in the form or substantially in the form set out in Schedule 3, Part B to the Bond Trust Deed.
"**Fourth Issue Date**"	means 18 October 2006.
"**Fourth Issuer/SWS Loan Agreement**"	means the loan agreement entered into between the Issuer and SWS on 18 October 2006.
"**FSMA**"	means the Financial Services and Markets Act 2000, as amended.
"**Full Greensands Group**"	means Greensands Holdings Limited and its Subsidiaries from time to time.
"**G&R Deed**"	means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Sub-Class of Class A Wrapped Bonds and/or Class B Wrapped Bonds or any other Class A Wrapped Debt.
"**GAAP**"	means Generally Accepted Accounting Principles.

"**Global Bond**"	means a Temporary Global Bond and/or a Permanent Global Bond, as the context may require.
"**Global Bond Certificate**"	means a Registered Bond in global form in the form or substantially in the form set out in Part A (Form of Global Bond Certificate) of Schedule 3 to the Bond Trust Deed, together with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States in reliance on Regulation S under the Securities Act, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed and refers to a Regulation S Global Bond Certificate.
"**Good Industry Practice**"	means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and the degree of skill, diligence, prudence and foresight which would reasonably be expected from a skilled and experienced person undertaking all or part of the Business, as the case may be, under the same or similar circumstances having regard to the regulatory pricing allowances and practices in the United Kingdom's regulated water and sewerage industry at the relevant time.
"**Government**"	means the government of the United Kingdom.
"**Greensands Companies**"	means Greensands Investments Limited, Greensands Senior Finance Limited, Greensands Junior Finance Limited, Greensands (UK) Limited and Greensands Europe Limited, all incorporated in England and Wales, and Greensands Holdings.
"**Greensands Holdings**"	means Greensands Holdings Limited, incorporated in Jersey.
"**Greensands Group**"	means Greensands Holdings Limited and its Subsidiaries, excluding the SWS Financing Group.
"**Group**"	means Southern Water Investments Limited and its Subsidiaries.
"**Guarantee**"	means, in relation to each Obligor, the guarantee of such Obligor given by it pursuant to the Security Document to which it is a party.
"**Guarantors**"	means SWSH, SWSGH and SWS, and, each, a "**Guarantor**".
"**Hedge Counterparties**"	means: (a) the Initial Hedge Counterparties; and (b) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID, and "**Hedge Counterparty**" means any of such parties.
"**Hedging Agreement**"	means:
	(a) any Treasury Transaction entered or to be entered into by the Issuer with Hedge Counterparties in accordance with the Hedging Policy (the counterparties to which have

acceded to the terms of the STID and the CTA and agreed to be bound by the terms of certain provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA);

(b) any other Treasury Transaction (the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of certain provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA) designated a Hedging Agreement by the Security Trustee and the Issuer,

(and references to "**Hedging Agreements**" shall be construed accordingly).

"**Hedging Policy**" means the initial hedging policy applicable to SWS and the Issuer set out in Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA as such hedging policy may be amended from time to time by agreement between the Security Trustee, the Issuer and, in certain circumstances, the Hedge Counterparties in accordance with the STID.

"**Holding Company**" means a holding company within the meaning of section 736 of the Companies Act 1985.

"**IDOK**" means an Interim Determination of a price limit as provided for in Part IV of Condition B of the Licence.

"**Income**" means any interest, dividends or other income arising from or in respect of an Authorised Investment.

"**Indemnification Deed**" means:

(a) the deed so named and entered into on 18 July 2003 (as amended from time to time) between, among others, the Obligors, MBIA Assurance S.A. (now Assured Guaranty as described herein) and the Dealers;

(b) the deed so named and entered into dated 25 May 2005 between the Issuer, SWSGH, SWSH, SWS, MBIA Assurance S.A. (now Assured Guaranty as described herein), RBS and Citigroup Global Markets Limited;

(c) the deed so named and entered into dated 18 October 2006 between the Issuer, SWSGH, SWSH, SWS, MBIA UK (now Assured Guaranty as described herein) and RBS; and

(d) the deed so named and entered into dated 12 July 2007 between Assured Guaranty, the Issuer and RBS,

and each other deed entered into between a Financial Guarantor, the Obligors and the Dealers in respect of any previous issuance of Wrapped Bonds.

"**Independent Review**" means an independent review resulting from a Trigger Event as set out in Paragraph 3, Part 2 (*Trigger Event Consequences*) of Schedule 6 to the CTA and set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*".

"**Indexed Bond**"	means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms).
"**Individual Bond Certificate**"	means a Registered Bond in definitive form issued or to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed either on issue or in exchange for a Global Bond Certificate or part thereof (all as indicated in the applicable Final Terms), such Registered Bond in definitive form being in the form or substantially in the form set out in Schedule 3 to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.
"**Initial Authorised Credit Facility Arranger**"	means The Royal Bank of Scotland plc, or any successor thereto.
"**Initial Date Representation**"	has the meaning set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Representations*".
"**Initial Financial Guarantees**"	means the financial guarantees issued by the Initial Financial Guarantors (subject to the satisfaction of certain conditions set out in the CP Agreement) in connection with the Sub-Classes of Class A Wrapped Bonds issued on the Initial Issue Date, the Sub-Classes of Class A Wrapped Bonds issued on 27 May 2005, the Sub-Classes of Class A Wrapped Bonds issued on 18 October 2006 and the Sub-Class of Class A Wrapped Bonds issued on 17 July 2007.
"**Initial Financial Guarantors**"	means each of MBIA Assurance S.A., MBIA UK and Assured Guaranty (Europe) plc (together now referred to as Assured Guaranty as described herein).
"**Initial Hedge Counterparties**"	means The Royal Bank of Scotland plc and Citibank, N.A., London Branch with whom the Issuer has entered into the Initial Hedging Agreements.
"**Initial Hedging Agreements**"	means each Hedging Agreement entered into with the Initial Hedge Counterparties on or before the Initial Issue Date.
"**Initial Issue Date**"	means 23 July 2003.
"**Initial Issuer/SWS Loan Agreement**"	means the loan agreement entered into between the Issuer and SWS on the Initial Issue Date.

"**Initial Mezzanine Facility Providers**"	means Royal Bank Investments Limited acting through its office at 280 Bishopsgate, London EC2M 4RB and a syndicate of lenders.
"**Initial RCF**"	means the revolving credit facilities of an aggregate facility amount of £150,000,000 made available to SWS by the Initial RCF Providers on the Initial Issue Date.
"**Initial RCF Agreement**"	means a facility agreement dated the Initial Issue Date, as amended and restated on 26 July 2005, and cancelled in full by SWS on 9 July 2010, under which the Initial RCF was made available to SWS.
"**Initial RCF Providers**"	means the syndicate of banks which together provided the Initial RCF.
"**Initial Term Facility**"	means the initial term facility made available to the Issuer by the Initial Term Facility Provider on the Initial Issue Date.
"**Initial Term Facility Agreement**"	means a facility agreement under which the Initial Term Facility was made available to the Issuer and includes that facility agreement in the form amended and restated at the time of the novation of such facility agreement to Artesian II.
"**Initial Term Facility Provider**"	means The Royal Bank of Scotland plc, or any successor thereto, including, upon novation of the Initial Term Facility Agreement to Artesian II, Artesian II.
"**Insolvency Event**"	means, in respect of any company: (a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order (other than in the case of the Issuer) and, in the opinion of the Security Trustee, such proceedings are not being disputed in good faith with a reasonable prospect of success; (b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in relation to such company; (c) an encumbrancer (excluding, in relation to the Issuer, the Security Trustee or any receiver) taking possession of the whole or any part of the undertaking or assets of such company; (d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Security Trustee or any receiver) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;

(e) the making of an arrangement, composition, scheme of arrangement, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;

(f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding-up, liquidation or dissolution of such company (except, in the case of the Issuer, a winding-up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);

(g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;

(h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or

(i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person.

"**Insolvency Official**" means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company's assets or in respect of any arrangement or composition with creditors.

"**Insolvency Proceedings**" means, in respect of any company, the winding-up, liquidation, dissolution, administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

"**Instalment Bonds**" means any Bonds specified as being instalment bonds in the relevant Final Terms.

"**Instructing Group**" means the Class A DIG or, following repayment in full of the Class A Debt, the Class B DIG or, following repayment of the Class A Debt and the Class B Debt in full, the "Majority Lenders" under the Senior Mezzanine Facility Agreement (as defined therein).

"**Instrument of Appointment**" or "**Licence**" means the Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the

	Environment appointed SWS as a water and sewerage undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
"**Insurances**"	means, as the context may require, any or all of the insurances described in or taken out pursuant to Schedule 16 (*Insurances*) to the CTA and any other contract or policy of insurance taken out by an Obligor from time to time, including, in each case, any future renewal or replacement of any such insurance whether with the same or different insurers and whether on the same or different terms as further defined in Schedule 16 (*Insurances*) to the CTA.
"**Intellectual Property Right**"	means all right, title and interest in: (a) any trade mark, service mark, trade name, logo, patent, invention, design or similar right; (b) any designs, copyright, semi-conductor topography, database and know-how or intellectual property right; and (c) all such similar rights which may subsist in any part of the world, in each case, whether registered or not, whether in existence now or in the future, and includes any related application.
"**Intercompany Loan**"	means the principal amount of all advances from time to time outstanding under an Issuer/SWS Loan Agreement.
"**Intercreditor Arrangements**"	means the arrangements between the Secured Creditors of the SWS Financing Group in the STID summarised in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
"**Interest Commencement Date**"	means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which such Bonds bear interest, which may or may not be the Issue Date.
"**Interest Payment Date**"	means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.
"**Interest Rate Hedging Agreement**"	means a Treasury Transaction to swap interest rates and rates linked to inflation.
"**Interim Determination**"	means an interim determination as provided for in Part IV of Condition B of the Licence.
"**Investment Grade**"	means a rating of at least BBB- by Fitch, Baa3 by Moody's or BBB- by S&P.
"**Investors' Report**"	means each report produced by SWS and the Issuer to be delivered within 120 days from 31 March or 60 days from 30 September in each year substantially in the form set out in the CTA.
"**IRC**"	means the amounts set out under the heading infrastructure renewals charge in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to SWS in the Director General's most recent

	Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation, provided that, for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, "**IRC**" shall be SWS's good faith, honestly held present estimate of such infrastructure renewals charge for such Test Period.
"**ISDA Master Agreement**"	means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multicurrency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.
"**Issue Date**"	means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer makes a utilisation of that facility.
"**Issue Price**"	means the price as stated on the relevant Final Terms, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.
"**Issuer**"	means Southern Water Services (Finance) Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability and company number 112331 and Legal Entity Identifier 213800BTY35K1724Z452.
"**Issuer/SWS Loan Agreement**"	means any loan agreement entered into between the Issuer and SWS, including the Initial Issuer/SWS Loan Agreement, the Second Issuer/SWS Loan Agreement, the Third Issuer/SWS Loan Agreement, the Fourth Issuer/SWS Loan Agreement, the Fifth Issuer/SWS Loan Agreement and the Sixth Issuer/SWS Loan Agreement.
"**Joint Venture**"	means any arrangement or agreement for any joint venture, cooperation or partnership pursuant to, required for or conducive to the operation of the Business by SWS but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.
"Junior Mezzanine Debt"	means the loan outstanding under a £106,000,000 junior mezzanine facility agreement dated the Initial Issue Date between, among others, the Issuer and The Royal Bank of Scotland plc as agent, which was prepaid in full on 15 April 2009.
"**K**"	means the adjustment factor set for each year by the DGWS by which charges made by Regulated Companies for water supply and sewerage services may be increased, decreased or kept constant.
"**K5 Period**"	means the Periodic Review Period that started on 1 April 2010.
"**Lead Manager**"	means in relation to any Tranche of Bonds, the person named as the lead manager in the relevant Subscription Agreement.

"**Lease Calculation Cashflow"** means, in respect of any 12-month period commencing on 1 April in any year, for any Finance Lease, a cash flow statement produced by the relevant Finance Lessor on, or as soon as reasonably practicable after, its Lease Calculation Date occurring prior to the commencement of such 12-month period and in accordance with its terms and the terms of the relevant Accession Memorandum, and using, *inter alia*, for the purposes of calculating the amount shown for each Rental Payment Date falling within the relevant 12-month period under the heading "interest" (or the equivalent thereof (howsoever worded)) in such cash flow statement, a rate of LIBOR, estimated, as at its Lease Calculation Date, by reference to the average of those rates per annum being offered by certain reference banks to prime banks in the London interbank market for entry into 12-month (or such other period as is equal to the relevant Rental Period under such Finance Lease) forward contracts, commencing on each Rental Payment Date arising during the period commencing on such Lease Calculation Date and ending on the last Rental Payment Date to occur during the relevant 12-month period and as agreed between SWS and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest implicit in such Rental calculations), provided that, where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any 12-month period commencing on 1 April in any year, the Lease Calculation Cashflow applicable to that Finance Lease for such 12-month period shall also include a cash flow statement, produced as soon as reasonably practicable after the time of recalculating the Rental and in accordance with its terms, and the terms of the relevant Accession Memorandum and using, in such cash flow statement, the same estimated interest rates as were used in preparation of the original cash flow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that 12-month period.

"**Lease Calculation Date"** means, in respect of any Finance Lease:

(a) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and

(b) the date falling 10 days before the Rental Payment Date immediately preceding the commencement date of the first 12-month period to commence on 1 April immediately after the date referred to in paragraph (a) above; and

(c) each yearly anniversary of the date referred to in paragraph (b) above,

	save that, where any date referred to in paragraph (a), (b) or (c) is not a Business Day, such date shall be deemed to be the preceding Business Day.
"**Lease Reserve Amount**"	means, in respect of any Finance Lease in any 12-month period commencing on 1 April in any year, the lower of: (a) the aggregate Notional Amount calculated with respect to such Finance Lease; and (b) the aggregate amount of rental payments payable to the Finance Lessor under such Finance Lease during such 12-month period (inclusive of VAT) (after adding back any additional rentals (inclusive of VAT) payable and deducting any estimated rental rebates (inclusive of any credit for VAT), in each case, as determined in accordance with the provisions of the relevant Finance Lease).
"**LIBOR**"	has the meaning given to that term in the relevant Finance Document.
"**Licence**"	means the Instrument of Appointment.
"**Liquidity Facility**"	means a DSR Liquidity Facility or an O&M Reserve Facility made available under a Liquidity Facility Agreement, and "**Liquidity Facilities**" means all of them.
"**Liquidity Facility Agent**"	means, in respect of the Existing DSR Liquidity Facility Agreement, The Royal Bank of Scotland plc and, in respect of any other Liquidity Facility Agreement, the Facility Agent under such Liquidity Facility Agreement.
"**Liquidity Facility Agreement**"	means each liquidity facility agreement which has the characteristics set out in Schedule 15 (*DSR Liquidity Facility/O&M Reserve Facility Terms*) to the CTA, as established in connection with each Sub-Class of Bonds issued by or other Authorised Credit Facility provided to the Issuer or SWS or shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.
"**Liquidity Facility Provider**"	means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Provider(s) and any O&M Reserve Facility Provider(s).
"**Liquidity Facility Requisite Ratings**"	means together the Minimum Short-term Rating from at least two Rating Agencies.
"**London Stock Exchange**"	means The London Stock Exchange plc.
"**Majority Creditors**"	means the Class A DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class A Debt or, following the repayment in full of the Class A Debt, the Class B DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class B Debt, in each case, subject to Clause 8 (*Modifications, Consents and Waivers*) and Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of*

Qualifying Debt) of the STID as set out in Chapter 7 "*Summary of the Financing Agreements*".

"**Make-Whole Amount**" means any amount above par payable on redemption of any Class A Debt or Class B Debt except where such amount is limited to accrued interest.

"**Mandatory Cost Rate**" means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

"**Market**" means the Regulated Market of the London Stock Exchange.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement entered into on the Initial Issue Date, as amended on 13 October 2006 and from time to time.

"**Material Adverse Effect**" means the effect of any event or circumstance which is materially adverse, taking into account the timing and availability of any rights or remedies under the WIA or the Instrument of Appointment, to:

(a) the business, property, operations or financial condition of SWS, the Issuer or the SWS Financing Group as a whole;

(b) the ability of any member of the SWS Financing Group to perform its material obligations under any Finance Document;

(c) the validity or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder; or

(d) the ability of SWS to perform or comply with any of its obligations under the Instrument of Appointment or the WIA.

"**Material Agreement**" means:

(a) for the purpose of Schedule 2 (*Material Entity Events*) to the CTA and Paragraph 11 (*Material Entity Event*) of Part 1 and Part 3 of Schedule 6 (*Trigger Events*) only:

    (i) any Capex Contract (or series of Capex Contracts) with the same Contractor (or its Affiliates) entered into by SWS for the purposes of, or in connection with, SWS carrying out its Regulated Business, where the NPV at the later of: (A) the Initial Issue Date; and (B) the date at which it is entered into or amended, supplemented or novated, of the agreed target cost payable by SWS under that Capex Contract (which, in each case, has not been terminated or expired in accordance with its terms), is, or would be, if such contract was entered into on arm's length terms and for full value, equal to or greater than £25 million (indexed); and/or

(ii) any Outsourcing Agreement (or series of Outsourcing Agreements) entered into with the same Contractor (or its Affiliates) where the annual value of the contracts entered into between SWS and such Contractor (or its Affiliates) (which, in each case, has not been terminated or expired in accordance with its terms) exceeds (or would exceed if entered into on arm's length terms) 10 per cent. of the Projected Operating Expenditure for the Test Periods in which such contracts are entered into; and

(b) except as provided for in paragraph (a)(i) above, any Material Capex Agreement and Material O&M Agreement.

"**Material Capex Agreement**" has the meaning given to that term in the Outsourcing Policy.

"**Material Entity Event**" means the events or circumstances set out in Schedule 2 (*Material Entity Events*) to the CTA and described in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Material Entity Events*".

"**Material O&M Agreement**" has the meaning given to that term in the Outsourcing Policy.

"**Maturity Date**" means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full.

"**MBIA UK**" means MBIA UK Insurance Limited.

"**MBIA Financial Guarantee Fee Letter**" means the Financial Guarantee Fee Letters between MBIA Assurance S.A. (now Assured Guaranty as described herein) and the Issuer relating to the MBIA S.A. Initial Financial Guarantees.

"**MBIA S.A. Initial Financial Guarantees**" means the financial guarantees issued by MBIA Assurance S.A. (now Assured Guaranty as described herein) in respect of Class A Wrapped Bonds issued on 23 July 2003 and on 27 May 2005.

"**Member State**" means a member state of the European Union.

"**Mezzanine Debt**" means the Senior Mezzanine Debt.

"**Mezzanine Facilities**" means the Senior Mezzanine Facility.

"**Mezzanine Facility Agreements**" means the Senior Mezzanine Facility Agreement.

"**Mezzanine Facility Provider**" means a Senior Mezzanine Facility Provider.

"**Mezzanine Finance Parties**" means the Senior Mezzanine Finance Parties.

"**Minimum Short-term Rating**" means, in respect of any person, such person's short-term unsecured debt obligations being rated, in the case of Moody's, "Prime-1"; in the case of S&P, "A-1"; and, in the case of Fitch, "F-1".

"**Monthly Payment Amount**" has the meaning set out in Paragraph 5.9 of Schedule 12 (*Cash Management*) to the Common Terms Agreement, approximately

	(and subject to adjustment) equal to 1/12th of SWS's Annual Finance Charge for the relevant 12-month period.
"**Moody's**"	means Moody's Investors Service Limited, or any successor to the rating agency business of Moody's Investors Service Limited.
"**Moody's Minimum Long-term Rating**"	means, in respect of any person, such person's long-term unsecured debt obligations being rated A2 by Moody's.
"**Net Cash Flow**"	means:

(a) in respect of any historical element of a Test Period, the aggregate of net cash flow from operating activities as shown in the SWS financial statements (after adding back, without double counting, and to the extent that such items are included in net cash flow from operating activities, any exceptional items (other than non-cash exceptional items), any recoverable VAT, any Capital Expenditure and any movement in debtors and/or creditors relating to Capital Expenditure) minus corporation tax paid which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any SWS/SWSG Debt Service Distribution, during such Test Period; and

(b) in respect of any forward-looking element of a Test Period, the aggregate of anticipated net cash flow from operating activities (after adding back, without double counting and to the extent that such items are included in the anticipated net cash flow from operating activities, any exceptional items (other than non-cash exceptional items), any recoverable VAT, any Capital Expenditure and any movement in debtors and/or creditors relating to Capital Expenditure, in each case, anticipated to occur during such Test Period) minus corporation tax which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any SWS/SWSG Debt Service Distributions anticipated to be paid during such Test Period less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back corporation tax anticipated to be paid as a result of such businesses during such Test Period.

"**New Money Advance**"	means any drawing during a Standstill under any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a drawing under such Authorised Credit Facility.
"**Non-Appointed Expense**"	means any expense incurred in connection with activities other than Appointed Business.
"**Non-Base Currency**"	means a currency other than pounds sterling.
"**Notice**" or "**notice**"	means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*).

"**Notified Item**"	has the meaning given to such term in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Interim Determinations of a Price Limit*".
"**Notional Amount**"	means, in respect of any Finance Lease, a sum, certified by any Authorised Signatory of the relevant Finance Lessor on each Lease Calculation Date and using the relevant Lease Calculation Cashflow relating thereto as being, for the succeeding 12-month period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant 12-month period under the headings "interest" and "margin" (or any equivalents thereof (howsoever worded)) in such Lease Calculation Cashflow, together with an amount equal to the VAT on such amount at the rate applicable to rentals payable under the relevant Finance Lease.
"**NGN**"	means a Temporary Global Bond the form set out in Part C or a Permanent Global Bond in the form set out in Part D, in each case, of Schedule 2 to the Bond Trust Deed .
"**NPV**"	means, in respect of any amount payable or receivable at a future date, such amount discounted back to the date of calculation on an annual basis at a discount rate of 7.5 per cent.
"**NSS**"	means the new safekeeping structure which applies to Global Bond Certificates held by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Global Bond Certificates to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations.
"**O&M Reserve**"	means the amounts standing to the credit of the O&M Reserve Accounts.
"**O&M Reserve Accounts**"	means the accounts of SWS and/or the Issuer entitled "O&M Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.
"**O&M Reserve Facility**"	means any operation and maintenance reserve liquidity facility made available under a Liquidity Facility Agreement.
"**O&M Reserve Facility Agreement**"	means an agreement establishing an O&M Reserve Facility.
"**O&M Reserve Facility Provider**"	means any provider from time to time of an O&M Reserve Facility.
"**O&M Reserve Required Amount**"	means not less than 10 per cent. of Projected Operating Expenditure and Capital Maintenance Expenditure required for the next succeeding 12-month period as forecast in the SWS Business Financial Model.
"**Obligors**"	means the Issuer, SWS, SWSH and SWSGH, and "**Obligor**" means any of them.
"**Official List**"	means the official list of the FCA.
"**OFT**"	means the Office of Fair Trading in the United Kingdom.
"**Ofwat**"	means the WSRA including its successor office or body.

"**Operating Accounts**"	means each account of SWS with the following titles: SWS Ltd. CAO Income, SWS Ltd. Misc Income, SWS Collections, SWS Ltd. No.2 Refunds, General Payments No.3, and SWS Ltd. Central Account held at the Account Bank and includes any sub-account or sub-accounts relating to that account and any replacement account or accounts from time to time.
"**Order**"	means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.
"**Ordinary Drought Order**"	means an order granted by DEFRA that allows a Regulated Company to stop or limit the use of water for a range of purposes specified in the Drought Direction 1991.
"**Original Senior Mezzanine Facility Provider**"	means Royal Bank Investments Limited.
"**Other Parties**"	means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Mezzanine Facility Providers, the Agents, the Account Bank, the Standstill Cash Manager and members of the Full Greensands Group (other than the Obligors).
"**Outsourcing Agreement**"	means any agreement pursuant to which SWS sub-contracts, tenders or outsources either the day-to-day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other Intellectual Property Rights in relation to water and sewerage services that, in the case of any outsourcing, SWS could, if not outsourced, perform itself.
"**Outsourcing Policy**"	means the outsourcing policy set out in Schedule 9 (*Outsourcing Policy*) to the CTA (as amended or replaced from time to time).
"**Outstanding**"	means, in relation to the Bonds of all or any Sub-Class, all the Bonds of such Sub-Class issued other than: (a) those Bonds which have been redeemed pursuant to the Bond Trust Deed; (b) those Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and, where appropriate, notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons; (c) those Bonds which have been purchased and cancelled in accordance with Conditions 8(f) (*Purchase of Bonds*) and 8(h) (*Cancellation*);

(d) those Bonds which have become void or in respect of which claims have become prescribed, in each case, under Condition 13 (*Prescription*);

(e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);

(f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and

(g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bonds or another Global Bond and, in the case of Registered Bonds, any Global Bond Certificate to the extent that it shall have been exchanged for Individual Bond Certificate, and, in each case, pursuant to its provisions, the provisions of the Bond Trust Deed and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;

(ii) the determination of how many and which Bonds of any Sub-Class are for the time being outstanding for the purposes of Clause 8 of the Bond Trust Deed, Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*), Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID and Paragraphs 2, 5, 6 and 13 of Schedule 4 to the Bond Trust Deed;

(iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Bonds of any Sub-Class; and

(iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Bonds of any Sub-Class,

those Bonds of the relevant Sub-Class (if any) which are for the time being held by or on behalf of the Issuer, the other Obligors, or any Associate of the Issuer or the other Obligors (other than any Associate which is a licensed or regulated financial institution which holds Bonds in the ordinary course of its business), in each case, as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

"**Outstanding Principal Amount**" means, as at any date that the same falls to be determined:

(a) in respect of Wrapped Debt (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the aggregate of any unpaid amounts owing to a Financial Guarantor under a G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Debt and the principal amount outstanding (or the Equivalent Amount) under such Wrapped Debt (including, in the case of Wrapped Bonds, any premium);

(b) in respect of Wrapped Debt (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the principal amount outstanding (or the Equivalent Amount) of such Wrapped Debt (including, in the case of Wrapped Bonds, any premium);

(c) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt (including, in the case of Wrapped Debt, any premium);

(d) in respect of any Authorised Credit Facilities that are loans (but do not constitute Wrapped Debt), the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding under such Authorised Credit Facility;

(e) in respect of each Finance Lease, the Equivalent Amount of either: (i) prior to an Acceleration of Liabilities (other than a Permitted Lease Termination) under such Finance Lease and subject to any increase or reduction calculated in accordance with Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cash flow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cash flow report which is current on such date); or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination) under such Finance Lease, the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date of such Acceleration of Liabilities (other than a Permitted Lease Termination);

(f) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA; and

(g) in respect of any other Secured Liabilities, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Security Trustee, where applicable, pursuant to Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID.

"**Out-turn Inflation**" means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index adjusted, as appropriate, in the case of capital additions, for any divergence between the actual movement of national construction costs, as evidenced by the Construction Output Price Index (or such other index as Ofwat may specify for the purposes of Condition B, of the Instrument of Appointment or otherwise) relative to the Retail Price Index from their base levels as used in the most recent Final Determination or IDOK and their relative movement as projected by Ofwat for the purposes of that determination, and, in respect of any period, including future periods, for which the relevant indices have not yet been published, by reference to forecast rates consistent with the average monthly movement in such indices over the previous 12 months for which published indices are available.

"**Participating Member State**" means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union.

"**Partly Paid Bond**" means a bond issued in the amount as specified in the relevant Final Terms and in respect of which further instalments will be payable in the amounts and on the dates as specified in the relevant Final Terms.

"**Party**" means, in relation to a Finance Document, a party to such Finance Document.

"**Paying Agents**" means, in relation to all or any Sub-Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency

	Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any Sub-Classes of the Bonds.
"**Payment Date**"	means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.
"**Payment Priorities**"	means the order of priority of the Permitted Payments to be made by the Issuer on each Payment Date as set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Cash Management*" as adjusted following the taking of any Enforcement Action and following termination of a Standstill (other than pursuant to a waiver or revocation by the Majority Creditors) in accordance with paragraph 8.12 of Schedule 12 to the CTA.
"**Pension Companies**"	means SWEPST (which no longer serves a function) and SWPT.
"**Periodic Information**"	means: (a) SWS's annual charges scheme with details of tariffs; (b) a summary of SWS's strategic business plan at each Periodic Review; (c) SWS's current Procurement Plan (if any); (d) SWS's annual drinking water quality report; (e) SWS's annual environmental report; (f) SWS's annual conservation and access report; and (g) such other periodic information compiled by SWS for Ofwat.
"**Periodic Review**"	means the periodic review of K (as that term is defined in the Instrument of Appointment) as provided for in Condition B of the Instrument of Appointment.
"**Periodic Review Effective Date**"	means the date with effect from which the new K (as that term is defined in the Instrument of Appointment) will take effect, following a Periodic Review.
"**Periodic Review Period**"	means the period commencing on a Periodic Review Effective Date and ending on the next Date Prior.

"**Permanent Global Bond**" means, in relation to any Sub-Class of Bearer Bonds, a global bond in the form or substantially in the form set out in Schedule 2, Part B to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealers, together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

"**Permitted Acquisition**" means any of the following carried out by SWS:

(a) an acquisition (including Authorised Investments), but not of any company or shares therein, partnership or Joint Venture, made on arm's length terms and in the ordinary course of trade;

(b) an acquisition of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which, in the reasonable opinion of SWS, are required for the efficient operation of its Business or in accordance with the Finance Leases;

(c) an acquisition of assets (but not of any company or shares therein, partnership or Joint Venture) made on arm's length terms entered into for bona fide commercial purposes in furtherance of SWS's statutory and regulatory obligations;

(d) an inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the WIA; and

(e) any acquisition made or Joint Venture entered into with the consent of the Security Trustee and each Financial Guarantor.

"**Permitted Book Debt Disposal**" means the disposal of book debts in each financial year with a nominal value of up to £5,000,000 (indexed) (or a greater amount with the prior written consent of the Security Trustee and each Financial Guarantor) by SWS on arm's length terms to any person other than an Affiliate, where:

(a) such book debts are sold to a person or persons whose business is the recovery of debts;

(b) SWS has made a prudent provision in its accounts against the non-recoverability of such debts;

(c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against SWS has expired; and

(d) the SWS Business Financial Model is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.

"**Permitted Disposal**" means any disposal made by SWS which:

(a) is made in the ordinary course of trading of the disposing entity or in connection with an arm's length transaction entered into for bona fide commercial purposes for the benefit of the Business;

(b) is of assets in exchange for other assets comparable or superior as to type, value and quality;

(c) is of Equipment pursuant to the Finance Leases;

(d) would not result in the Senior RAR, calculated for each Test Period by reference to the most recently occurring Calculation Date (adjusted on a proforma basis to take into account the proposed disposal), being more than or equal to 0.900:1;

(e) is a disposal for cash on arm's length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of SWS, are not required for the efficient operation of its Business and which does not cause a Trigger Event under paragraph 1, Part 1 (*Trigger Events*) to Schedule 6 to the CTA;

(f) is made pursuant to the Outsourcing Policy;

(g) is a Permitted Book Debt Disposal;

(h) is a disposal of Protected Land (as that term is defined in the WIA) in accordance with the terms of the Instrument of Appointment;

(i) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction;

(j) is the disposal of assets owned by SWS which form part of its Permitted Non-Appointed Business;

(k) is any other disposal which is in accordance with the Instrument of Appointment, provided that the consideration (both cash and non-cash) received by SWS (or which would be received by SWS if such disposal was made on arm's length terms for full commercial value to an unconnected third party) in respect of any such disposal when aggregated with all other such disposals by it made in: (i) the immediately preceding 12-month period does not exceed 2.5 per cent. of RCV (or its equivalent); and (ii) the immediately preceding five-year period does not exceed 10 per cent. of RCV (or its equivalent); or

(l) is a disposal of assets to a partnership or a Joint Venture made on arm's lengths terms entered into for bona fide commercial purposes in furtherance of SWS's statutory and regulatory obligations,

provided that, in each case, such disposal does not cause any of the Trigger Event Ratio Levels to be breached.

"**Permitted Emergency Action**" means any remedial action taken by SWS during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of SWS (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which SWS considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 28 days or such longer period as is agreed by SWS, the Security Trustee and each Financial Guarantor.

"**Permitted Existing Non-Appointed Business**" means any business other than the Appointed Business which is carried on by SWS at the Initial Issue Date and: (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business; and (b) in respect of which all material risks related thereto are insured in accordance with Good Industry Practice; and (c) which does not give rise to any material actual or contingent liabilities for SWS that are not properly provided for in its financial statements.

"**Permitted Existing Pension Schemes**" means: (i) the SWPS; (ii) the SWEPS; (iii) the Scottish Power group Final Salary Scheme; (iv) the Scottish Power group Money Purchase Life Plan; (v) the Manweb Group of the Electricity Supply Pension Scheme; and (vi) the Scottish Power group Pension Scheme.

"**Permitted Financial Indebtedness**" means:

(a) Financial Indebtedness incurred under the Issuer/SWS Loan Agreements;

(b) Financial Indebtedness incurred by one member of the SWS Financing Group to another member if the recipient of that Financial Indebtedness is an Obligor;

(c) Financial Indebtedness incurred under any Finance Document as at the Initial Issue Date;

(d) Financial Indebtedness incurred under a Treasury Transaction, provided that it is in compliance with the Hedging Policy;

(e) any unsecured indebtedness, provided that the aggregate amount of such Financial Indebtedness does not exceed £25,000,000 (indexed from the Initial Issue Date);

(f) any Subordinated Debt entered into after the Initial Issue Date and the SWS Preference Shares; and

(g) such further Financial Indebtedness incurred by the Issuer or SWS that complies with the following conditions:

(i) 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;

(ii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility Agreement the provider of which is a party to, or has acceded to, the CTA and STID;

(iii) 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 of Schedule 5 (*Financial 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;

(iv) 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;

(v) if such further Financial Indebtedness is Class A Debt or Class B Debt, then the Senior RAR (adjusted on a pro forma 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;

(vi) if such further Financial Indebtedness is Class A Debt then (taking into account the proposed incurrence of such debt) the Class A RAR must be less than or equal to 0.75:1 and the Class A Adjusted ICR must be greater than or equal to 1.30:1 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 15 per cent. of RCV or its equivalent.

For the purposes of this definition only, the termination sums payable under a Treasury Transaction that has been terminated shall not be treated as Financial Indebtedness and the occurrence of such event shall not be construed as the incurrence of Financial Indebtedness.

"**Permitted Hedge Termination**" means the termination of a Hedging Agreement in accordance with the provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA.

"**Permitted Lease Termination**" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

(a) Total Loss: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment, save that SWS or the Issuer (as applicable) will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if: (i) an Acceleration of Liabilities other than Permitted Hedge Terminations and Permitted Lease Terminations in respect of other Finance Leases has occurred; or (ii) a Default Situation is subsisting or would occur as a result of such payment; or

(b) Illegality: Pursuant to any provision of a Finance 22; or

(c) Voluntary Prepayment/Termination: Pursuant to any provision of a Finance Lease whereby SWS or the Issuer (as applicable) will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals due to, the leasing of certain Equipment under such Finance Lease, provided that: (i) no Acceleration of Liabilities other than Permitted Hedge Terminations and Permitted Lease Terminations in respect of other Finance Leases has occurred; or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination.

"**Permitted New Non-Appointed Business**" means any business other than the Appointed Business and Permitted Existing Non-Appointed Business provided that: (a) such business: (i) is prudent in the context of the overall business of SWS and continues to be prudent for the duration of that Permitted New Non-Appointed Business; and (ii) is not reasonably likely to be objected to by the Director General; and (iii) falls within the Permitted Non-Appointed Business Limits applicable to Permitted Non-Appointed Business; (b) all material risks related thereto are insured in accordance with Good Industry Practice; and (c) such business does not give rise to any material actual or contingent liabilities for SWS that are not properly provided for in its financial statements.

"**Permitted Non-Appointed Business**"	means Permitted Existing Non-Appointed Business and Permitted New Non-Appointed Business.
"**Permitted Non-Appointed Business Limits**"	means, in respect of Permitted Non-Appointed Business, that the average of the Non-Appointed Expenses during the current Test Period and the immediately two preceding Test Periods does not exceed 2.5 per cent. of Cash Expenses of SWS during such Test Periods.
"**Permitted Payments**"	means the application of moneys credited to the Debt Service Payment Account in accordance with the Payment Priorities.
"**Permitted Post Closing Events**"	means: (a) payment of transaction fees and expenses to the extent not paid on the Initial Issue Date; or (b) payments of all amounts outstanding under the Bridge Facility Agreement and related documentation and the discharge of the security created under such document; or (c) any other payments listed in writing by SWS as at the Initial Issue Date and signed by way of approval by the Security Trustee.
"**Permitted Security Interest**"	means any security interest falling under paragraphs (a) to (g) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (h) to (k) (inclusive) below which is created by SWS or the Issuer and any security interest falling under paragraphs (l) to (r) (inclusive) below which is created by SWS: (a) Security Interest created under the Security Documents or contemplated by the Finance Documents; (b) any Security Interest specified in Schedule 12 (*Cash Management*) to the CTA, if the principal amount thereby secured is not increased; (c) a Security Interest comprising a netting or set-off arrangement entered into by a member of the SWS Financing Group in the ordinary course of its banking arrangements; (d) a right of set-off, banker's liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft; (e) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the SWS Financing Group in good faith and with a reasonable prospect of success;

(f) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the SWS Financing Group by appropriate procedures and with a reasonable prospect of success;

(g) a security interest comprising a netting or set-off arrangement entered into under any hedge arrangement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such hedge arrangement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);

(h) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;

(i) a Security Interest created over shares and/or other securities acquired in accordance with the CTA held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;

(j) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;

(k) a Security Interest over or affecting any asset acquired on arm's length terms after the date hereof and subject to which such asset is acquired, if:

   (i) such Security Interest was not created in contemplation of the acquisition of such asset;

   (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the SWS Financing Group; and

   (iii) unless such Security Interest falls within any of paragraphs (m) to (r) below: (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;

(l) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or, if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;

(m) a Security Interest arising under or contemplated by any Finance Leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets on deferred purchase terms where the counterparty becomes party to the STID;

(n) a right of set-off existing in the ordinary course of trading activities between SWS and its suppliers or customers;

(o) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business, provided that such lien is discharged within 30 days of any member of the SWS Financing Group becoming aware that the amount owing in respect of such lien has become due;

(p) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;

(q) any retention of title arrangements entered into by SWS in the ordinary course of business; or

(r) in addition to any Security Interests subsisting pursuant to the above, any other Security Interests, provided that the aggregate principal amount secured by such Security Interests does not at any time exceed £10,000,000 (or its equivalent) (indexed from the Initial Issue Date),

to the extent that and for so long, in each case, as the creation or existence of the Security Interest would not contravene the terms of the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or the WIA.

"**Permitted Share Pledge Acceleration**" means the acceleration by the Secured Creditors (subject to the availability of funds) of their respective claims to the extent necessary to apply proceeds of enforcement of the share pledges provided by SWSGH and SWSH pursuant to the Security Agreement.

"**Permitted Subsidiaries**" means the Pension Companies and the Issuer and any other Subsidiary of SWS from time to time which is acquired by SWS pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee on or as soon as practicable after the date of such acquisition.

"**Permitted Tax Loss Transaction**" means any surrender of tax losses or agreement relating to tax benefit or relief (including for the avoidance of doubt an election under section 171A Taxation of Chargeable Gains Act 1992) or any other agreement relating to tax between:

(a) an Obligor and any other member of the SWS Financing Group; or

(b) an Obligor and any other member of the Group (not being a member of the SWS Financing Group) in the following circumstances;

(i) where the company receiving the benefit, tax loss or relief (the "**Recipient Company**") is an Obligor, the Obligor either makes no payment for the benefit, tax loss or relief or makes a payment which does not exceed the tax saved and is made only in circumstances in which (if SWS is the Recipient Company and SWSG is the surrendering company) it will be applied in immediate payment to SWS of interest due and payable under the SWS/SWSG Loan Agreement or in which it has been demonstrated to the satisfaction of the Security Trustee (acting in accordance with STID) that the utilisation of the benefit, tax loss or relief by the Recipient Company would not be subject to challenge by HM Revenue & Customs (save in the event of fraud or negligence); and

(ii) where the Recipient Company is a member of the Group (other than an Obligor), a payment is made to the Obligor of an amount equal to the tax saved within 30 days of the claim being made by the Recipient Company to include the benefit, tax loss or relief in the tax return (whether the tax return originally filed or an amendment to that tax return) it files with HM Revenue & Customs, provided that, to the extent that it is subsequently demonstrated to the satisfaction of the Security Trustee (acting in accordance with the STID) that there is no such utilisation of such benefit, tax loss or relief by the Recipient Company, then amounts paid to the Obligor by the Recipient Company for such benefit, tax loss or relief should be refunded within 30 days of such fact being so demonstrated.

"**Permitted Volume Trading Arrangements**" means contracts entered into by any member of the Group or any Associate thereof with suppliers for the supply of goods and services to the SWS Financing Group on terms that discounts are available as a result of such arrangements, provided that any Obligor making use of such arrangements will reimburse the relevant member of the Group or Associate for any Financial Indebtedness by way of amounts payable by such member of the Group or Associate to such supplier as a result of such Obligor making use of such arrangements.

"**Potential Event of Default**" means (other than in any Hedging Agreement, where "Potential Event of Default" has the meaning given to it in that Hedging Agreement) an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"**Potential Trigger Event**"	means 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.
"**Preference Shares**"	means the Class A1 Preference Shares, Class A2 Preference Shares and Class B Preference Shares.
"**Previous RCF**"	means the revolving credit facilities of an aggregate facility amount of £350,000,000 made available to SWS by the Previous RCF Providers from 26 November 2014.
"**Previous RCF Agent**"	means The Royal Bank of Scotland plc, or any successor thereto.
"**Previous RCF Agreement**"	means a facility agreement dated 26 November 2014, under which the Previous RCF was made available to SWS.
"**Previous RCF Providers**"	means the syndicate of banks which together provided the Previous RCF.
"**Principal Amount Outstanding**"	means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the holder(s) thereof in respect of such Bond, Sub-Class or Class.
"**PR14**"	means the Periodic Review for the period 1 April 2015 to 31 March 2020.
"**PR19**"	means the Periodic Review for the period 1 April 2020 to 31 March 2025.
"**Principal Paying Agent**"	means Deutsche Bank AG London under the Agency Agreement, or its Successors thereto.
"**Proceeds**"	means the aggregate of all receipts or recoveries by the Security Trustee pursuant to, or upon enforcement of, any of the Rights (including pursuant to Clause 11.6 (*Receipts Held in Trust*) of the STID) after deducting (to the extent not already deducted or retained prior to such receipt or recovery by the Security Trustee) all sums which the Security Trustee is required under the Finance Documents or by applicable law to pay to any other person before distributing any such receipts or recoveries to any of the Secured Creditors.
"**Procurement Plan**"	means the procurement plan (if any) prepared and amended from time to time by SWS in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and each Financial Guarantor and consulting with the Security Trustee and each Financial Guarantor who, within reasonable time thereafter, notifies SWS that it wishes to be consulted.
"**Programme**"	means the £6,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange.
"**Projected Operating Expenditure**"	means, at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.
"**Prospectus**"	has the meaning given to that term on page 1 of this Prospectus.

"**Prospectus Regulation**" means Regulation (EU) 2017/1129 of the European Parliament and of the Council, published on 14 June 2017.

"**Protected Land**" means, in relation to a Regulated Company, any land which, or any interest or right in or over land which:

(a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in the WIA), was held by that company at any time during the financial year ending 31 March 1990;

(b) Is, or has at any time on or after 1 September 1989 been, held by that company for purposes connected with the carrying out of its functions as a water undertaker or sewerage undertaker; or

(c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an Instrument of Appointment.

"**PSM**" means the London Stock Exchange's Professional Securities Market.

"**Public Procurement Rules**" means public procurement rules of the United Kingdom (including the Utilities Contracts Regulations 1996 (SI 1996/2911) as amended by the Utilities Contracts (Amendment) Regulations 2001 (SI 2001/2418)) and of the European Communities (including Directive 93/98 as amended by Directive 98/4) affecting the water and sewerage sector and including any jurisprudence of the courts of the United Kingdom and of the European Communities and decisions of the European Commission in respect of such rules.

"**Published Regulatory Accounts**" means the annual report and accounting statements of a licenced water company as at 31 March 2019, which have been published on its website.

"**Qualifying Class A Debt**" means the aggregate Outstanding Principal Amount of Class A Debt entitled to be voted by the Class A DIG Representatives.

"**Qualifying Class A Debt Provider**" means a provider of Qualifying Class A Debt.

"**Qualifying Class B Debt**" means the aggregate Outstanding Principal Amount of Class B Debt entitled to be voted by the Class B DIG Representatives.

"**Qualifying Class B Debt Provider**" means a provider of Qualifying Class B Debt.

"**Qualifying Debt**" means the Qualifying Class A Debt, the Qualifying Class B Debt, the Senior Mezzanine Debt or Junior Mezzanine Debt, as the context requires.

"**Rating Agencies**" means Fitch, Moody's and S&P and any further or replacement rating agency appointed by the Issuer with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors) to provide a credit rating or ratings for the Class A Debt

	and the Class B Debt and shadow ratings in respect of Class A Wrapped Debt and Class B Wrapped Debt for so long as they are willing and able to provide credit ratings generally (and "**Rating Agency**" means any one of them).
"**Rating Requirement**"	means confirmation from any two Rating Agencies or, where expressly stated, all Rating Agencies then rating the Bonds that, in respect of any matter where such confirmation is required, the shadow rating is, in the case of the Class A Wrapped Debt, A- by Fitch and S&P and A3 by Moody's or above and, in the case of the Class A Unwrapped Debt, is A- by Fitch and S&P and A3 by Moody's or above.
"**RBS**"	means The Royal Bank of Scotland plc.
"**RBS Group**"	means RBSG and its Subsidiaries.
"**RBSG**"	means The Royal Bank of Scotland Group plc, a company incorporated in Scotland and ultimate holding company of the RBS Group.
"**RCV**"	means, in relation to any date, the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by Ofwat) and notified to SWS by Ofwat at the most recent Periodic Review or IDOK or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation), provided that "**RCV**" for the purposes of calculating the Senior RAR and Class A RAR for any Test Period for which there is no Final Determination shall be SWS's good faith, honestly held present estimate of its regulatory capital value on the last day of such Test Period.
"**Receipt**"	means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).
"**Receiptholders**"	means the several persons who are for the time being holders of the Receipts.
"**Register**"	means a register of the Bondholders of a Sub-Class of Registered Bonds.
"**Registered Bonds**"	means those of the Bonds which are for the time being in registered form.
"**Registered Office Agreement**"	means the registered office agreement dated 1 January 2002 between the Issuer, Maples and Calder and M&C Corporate Services Limited (now known as Maples Corporate Services Limited).

"**Registrar**" means Deutsche Bank Luxembourg S.A. as a registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

"**Regulated Company**" means a company appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA.

"**Regulation S**" has the meaning given to such term under the Securities Act.

"**Relevant Date**" has the meaning set out in Condition 6(s) (*Definitions*).

"**Remedial Plan**" means any remedial plan agreed by SWS and the Security Trustee under Part 2 of Schedule 6 (*Trigger Events*) to the CTA.

"**Rental**" means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.

"**Rental Payment Date**" means any date on which Rental is scheduled to be paid under any Finance Lease.

"**Rental Period**" means, in respect of a Finance Lease, each period falling between two Rental Payment Dates under the Finance Lease.

"**Repeated Representations**" means:

(a) the representations set out in paragraphs 1 to 3, 8 to 10, 12 to 14 and 17 to 19 (inclusive) of Schedule 3 (*General Representations*) of the CTA; and

(b) the representations set out in Paragraphs 1 and 5 of Schedule 4 (*SWS representations*) to the CTA,

and which are deemed, pursuant to the CTA to be repeated on:

(i) the date of each Request and the first day of any borrowing;

(ii) each Payment Date;

(iii) in relation to any new Material Agreement, the day on which such agreement is entered into and only in relation to such new Material Agreement; and

(iv) each date on which a Restricted Payment is made.

See Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Representations*".

"**Request**" means a request for utilisation of any Authorised Credit Facility.

"**Required Balance**" means the sum of the Class A Required Balance and the Class B Required Balance.

"**Reserved Matters**" means matters which, subject to the Intercreditor Arrangements, a Secured Creditor is free to exercise in accordance with its own facility arrangements and not by the direction of the Majority Creditors as more particularly described in the STID.

"**Restricted Payment**" means any Distribution, Customer Rebate or payment under the Subordinated Debt or the SWS Preference Shares other than:

(a) to the extent required to make any payment under an Authorised Credit Facility in accordance with the provisions of the CTA and the STID, a payment by SWS under any Issuer/SWS Loan Agreement;

(b) a payment made under a Permitted Tax Loss Transaction;

(c) any Permitted Post-Closing Event;

(d) a Subordinated Debt Replacement Event or SWS Preference Share Conversion Event; or

(e) an SWS/SWSG Debt Service Distribution.

"**Restricted Payment Condition**" means each of the conditions which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer or SWS.

"**Restricted Secured Liabilities**" means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Restricted Chargor to any Secured Creditor under each Finance Document to which such Restricted Chargor is a party, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of Section 151 of the Companies Act 1985.

"**Retail Price Index**" or "**RPI**" means the all items retail prices index for the United Kingdom Published by the Office for National Statistics or at any future date such other index of retail prices as may have then replaced it for the purposes of Ofwat's determination of price limits for water and sewerage services.

"**Rights**" means all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents or under the Ancillary Documents and all rights to make demands, bring proceedings or take any other action in respect of such rights.

"**Rolling Average Period**" means, on each Calculation Date, the Test Period ending on 31 March that falls in the same calendar year as that Calculation Date and the next subsequent two consecutive Test Periods.

"**Scheduled Debt Service**" means the amounts referred to in sub-paragraphs (i)-(xii) of the definition of "Payment Priorities" (other than principal repayments on the Class A Debt and Class B Debt) payable on a particular Payment Date.

"**Second Artesian Term Facility**" means the £155,484,023.05 index-linked term facility made available to the Issuer by Artesian.

"**Second Artesian Term Facility Agreement**" means a facility agreement dated 5 July 2004 under which the Second Artesian Term Facility was made available to the Issuer and includes that facility agreement in the form amended and restated at the time of the novation of such facility agreement to Artesian.

"**Second Issue Date**" means 5 July 2004.

"**Second Issuer/SWS Loan Agreement**" means the loan agreement entered into between the Issuer and SWS on 5 July 2004.

"**Secretary of State**"	means one of Her Majesty's principal secretaries of state.
"**Section 19 Undertaking**"	means an undertaking given by a Regulated Company to secure or facilitate compliance with a licence condition or a relevant statutory or other requirement and which is capable of direct enforcement under the WIA.
"**Secured Creditor**"	means the Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders), the Bondholders, each Financial Guarantor, the Hedge Counterparties, the Issuer, the Liquidity Facility Agents, each Liquidity Facility Provider, Artesian II, Artesian and each other Authorised Credit Provider, the Standstill Cash Manager, each Agent, the Mezzanine Finance Parties, and any Additional Secured Creditors.
"**Secured Creditor Representative**"	means: (a) in respect of the Bondholders, the Bond Trustee; (b) in respect of the Existing RCF Providers, the Existing RCF Agent; (c) in respect of Artesian II, Artesian II; (d) in respect of Artesian, Artesian; (e) in respect of the Issuer/SWS Loan Agreements, the Security Trustee (on behalf of the Issuer); (f) in respect of the 2019 Bridge Facility Providers, the 2019 Bridge Facility Agent; (g) in respect of any Liquidity Facility Provider, the facility agent under the relevant Liquidity Facility Agreement; and (h) in respect of any Additional Secured Creditor, the representative of such Additional Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant Finance Document and named as such in the relevant Accession Memorandum.
"**Secured Liabilities**"	means the Restricted Secured Liabilities and the Unrestricted Secured Liabilities.
"**Securities Act**"	means the United States Securities Act of 1933, as amended.
"**Security**"	means the security constituted by the Security Documents, including any Guarantee or obligation to provide cash collateral or further assurance thereunder.
"**Security Agreement**"	means the deed of charge and guarantee executed in favour of the Security Trustee by each of the Obligors on the Initial Issue Date.
"**Security Assets**"	means all property, assets, rights and undertakings the subject of the Security created by the Obligors pursuant to any Security Document, together with the Rights.
"**Security Documents**"	means:

(a) the Security Agreement;

(b) the STID and each deed of accession thereto; and

(c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Secured Creditor under the Finance Documents.

"**Security Interest**" means:

(a) any mortgage, pledge, lien, charge, assignment or hypothecation, or other encumbrance securing any obligation of any person;

(b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Security Trustee**" means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

"**Senior Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Senior Debt Interest during such Test Period.

"**Senior Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Senior Debt**" means all Class A Debt and Class B Debt and any other debt ranking in priority to subordinated debt of any member of the SWS Financing Group.

"**Senior Debt Interest**" means, in relation to any Test Period and without double counting, an amount equal to the aggregate of:

(a) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable on the Issuer's and/or SWS's obligations under and in connection with all Class A Debt and Class B Debt;

(b) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable under or in connection with any Permitted Financial Indebtedness falling within paragraph (e) of that definition;

(c) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable to any Financial Guarantor; and

(d) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable on the Issuer's and/or SWS's obligations under and in connection with all Class A Debt and Class B Debt,

in each case, during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal to the extent that it has been included in such interest or other amounts, amortisation of the costs of issue of any Class A Debt and Class B Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or Class B Debt) less all interest received or, in respect of forward-looking ratios, receivable by any member of the SWS Financing Group from a third party during such Test Period (excluding any interest received or receivable from SWSG under the SWS/SWSG Loan Agreement).

"**Senior Mezzanine Debt**" means the principal amount outstanding for the time being under the loan made by the Senior Mezzanine Facility Providers under the Senior Mezzanine Facility Agreement.

"**Senior Mezzanine Facility**" means a credit facility in the original amount of £127,200,000 provided by the Senior Mezzanine Facility Providers to the Issuer pursuant to the Senior Mezzanine Facility Agreement.

"**Senior Mezzanine Facility Agent**" means The Royal Bank of Scotland plc or any successor thereto as agent under the Senior Mezzanine Facility Agreement.

"**Senior Mezzanine Facility Agreement**" means the £127,200,000 senior mezzanine facility agreement dated the Initial Issue Date between the Issuer, the Senior Mezzanine Facility Agent, the Senior Mezzanine Facility Arranger, the Original Senior Mezzanine Facility Provider and the Security Trustee.

"**Senior Mezzanine Facility Arranger**" means RBEF Limited.

"**Senior Mezzanine Facility Providers**" means the "Lenders" (as defined in the Senior Mezzanine Facility Agreement).

"**Senior Mezzanine Finance Parties**" means:

(a) the Senior Mezzanine Facility Agent;

(b) the Senior Mezzanine Facility Arranger; and

(c) the Senior Mezzanine Facility Providers.

"**Senior Net Indebtedness**" means, as at any date, all the Issuer's and SWS's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt and Class B Debt on such date and the nominal amount of any Financial Indebtedness falling within paragraph (e) of the definition of "Permitted Financial Indebtedness" which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date, including, in each case, all indexation accrued but unpaid up to and including such date (after taking account of the impact on interest rates of all related Hedging

Agreements then in force) on any such liabilities which are indexed together with any interest due and unpaid (after taking account of the impact on interest rates of all related Hedging Agreements then in force) and less the value of all Authorised Investments and all other amounts standing to the credit of any Account (other than an amount equal to the Excluded Insurance Proceeds Amount an amount equal to the aggregate of any amounts which represent Customer Rebates or Distributions which have been declared but not paid on such date) (where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated: (a) in respect of debt with associated Currency Hedging Agreements, by reference to applicable hedge rates; or (b) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Senior RAR**"	means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of forward-looking ratios in respect of Test Periods ending after such Calculation Date, as at 31 March falling in such Test Period.
"**Series**"	means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any Sub-Class issued on such Issue Date.
"**Series 1 Bonds**"	means the Issuer's Series 1 Bonds issued on the Initial Issue Date, as further defined in Chapter 4 "*Financing Structure*".
"**Series 1 Redeemed Bonds**"	has the meaning given to that term on page 52 of this Prospectus.
"**Series 2 Bonds**"	means the Issuer's Series 2 Bonds issued on the Third Issue Date, as further defined in Chapter 4 "*Financing Structure*".
"**Series 3 Bonds**"	means the Issuer's Series 3 Bonds issued on the Fourth Issue Date, as further defined in Chapter 4 "*Financing Structure*".
"**Series 4 Bonds**"	means the Issuer's Series 4 Bonds issued on the Fifth Issue Date, as further defined in Chapter 4 "*Financing Structure*".
"**Series 5 Bonds**"	means the Issuer's Series 5 Bonds issued on the Sixth Issue Date, as further defined in Chapter 4 "*Financing Structure*".
"**Sewerage Region**"	means the geographical area for which a Regulated Company has been appointed as the sewerage undertaker under Section 6 of the WIA.
"**Share Pledges**"	means the pledges dated on or about the Initial Issue Date, in favour of the Security Trustee, over the shares in SWSH, SWS and the Issuer, respectively, and "**Share Pledge**" means any one of them.
"**Shortfall Paragraph**"	means, to the extent that (after payment of all relevant operating expenditure) there is a shortfall of forecast revenues, the relevant

	sub-paragraph of the definition of "Payment Priorities" in relation to which the revenue that is forecast to be available is insufficient to meet all of the payments in such sub-paragraph.
"**Sixth Issue Date**"	means 5 March 2009.
"**Sixth Issuer/SWS Loan Agreement**"	means the loan agreement entered into between the Issuer and SWS on 27 February 2009.
"**Special Administration**"	means the insolvency process specific to Regulated Companies under Sections 23 to 26 of the WIA.
"**Special Administration Order**"	means an order of the High Court under sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.
"**Special Administration Petition Period**"	means the period beginning with the presentation of the petition for Special Administration under Section 24 of the WIA and ending with the making of a Special Administration Order or the dismissal of the petition.
"**Special Administrator**"	means the person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.
"**Standard & Poor's**" or **"S&P"**	means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. or any successor to the rating business of Standard & Poor's Rating Services.
"**Standby Drawing**"	means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Required Ratings or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.
"**Standstill**"	means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against SWS and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default. See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Standstill*" for a summary.
"**Standstill Cash Manager**"	means HSBC Bank plc in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager.
"**Standstill Event**"	means an event giving rise to a Standstill in accordance with the STID. See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Standstill*" for a summary.

"**Standstill Extension**"	means any of the periods for which a Standstill Period is extended under Clause 13.5 (*Extension of Standstill*) of the STID, See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Standstill Extension*" for a summary.
"**Standstill Period**"	means a period during which a standstill arrangement is subsisting, commencing on the date as determined by Clause 13.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by Clause 13.4 (*Termination of Standstill*) of the STID. See Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Standstill*" for a summary.
"**Statutory Accounts**"	means the statutory accounts which SWS is required to prepare in compliance with the Companies Act 1985, as amended from time to time.
"**STID**"	means the security trust and intercreditor deed entered into on the Initial Issue Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and MBIA Assurance S.A. (now Assured Guaranty as described herein), together with any deed supplemental to the STID and referred to in the STID as a "Supplemental Deed".
"**STID Directions Request**"	means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors or their Secured Creditor Representatives and requesting directions from the relevant Secured Creditors in accordance with the STID.
"**STID Proposal**"	means a proposal or request made by any Secured Creditor or its Secured Creditor Representative or any Obligor in accordance with the STID proposing or requesting the Security Trustee: to execute a supplemental deed to the STID; to change, modify or waive any term or condition of any Finance Document; to substitute the Issuer; or to take any Enforcement Action or any other action in respect of the transactions contemplated by the Finance Documents, as defined more particularly in the STID.
"**Stock Exchange**"	means the London Stock Exchange or any other or further stock exchange(s) on which any Bonds may, from time to time, be listed, and references in these presents (as defined in this Prospectus) to the "**relevant Stock Exchange**" shall, in relation to any Bonds, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed.
"**Sub-Class**"	is a division of a Class.
"**Subordinated Authorised Loan Amounts**"	means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer or SWS to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) on the part of the Authorised Credit Provider or

	any other amounts not referred to in any other paragraph of the definition of "Payment Priorities".
"**Subordinated Coupon Amounts**"	means, in the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) by which the Coupon on such Bonds exceeds the initial Coupon as at the date on which such Bonds were issued and, in the case of Floating Rate Bonds, any amounts (other than deferred interest) by which the margin on the Coupon on such Bonds exceeds the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued.
"**Subordinated Debt**"	means any Financial Indebtedness (other than Financial Indebtedness falling within paragraph (e) of the definition of "Permitted Financial Indebtedness") that is fully subordinated, in a manner satisfactory to the Security Trustee and each Financial Guarantor, to the Class A Debt and Class B Debt and where the relevant credit provider has acceded to the Common Terms Agreement and the STID or upon an SWS Preference Share Conversion Event, the SWS Preference Share Deed, including, for the avoidance of doubt, the Mezzanine Debt.
"**Subordinated Debt Replacement Event**"	means any refinancing of any or all of the Senior Mezzanine Debt or Junior Mezzanine Debt at any time so long as: (a) no Event of Default is continuing or would result from such refinancing; (b) no Trigger Event described in Chapter 7 "*Summary of the Financing Agreements*" *under* "*Common Terms Agreement: Trigger Events – Financial Ratios*"; "*Common Terms Agreement: Trigger Events – Liquidity for Capital Expenditure and Working Capital*"; "*Common Terms Agreement: Trigger Events – Debt Service Required Payment Shortfall*" and "*Common Terms Agreement: Trigger Events – Drawdown on DSR Liquidity Facilities and O&M Reserve Facility*" is continuing; and (c) the Financial Indebtedness incurred in order to raise funds for such refinancing (which may, for the avoidance of doubt, be by way of subordinated bonds) ranks below the Class B Debt and is on substantially the same terms as the Senior Mezzanine Debt or the Junior Mezzanine Debt, as the case may be, being refinanced.
"**Subordinated Liquidity Facility Amounts**"	means, in relation to any Liquidity Facility: (a) the amount by which the amount of interest accruing at the Mandatory Cost Rate at any time exceeds the Mandatory Cost Rate on the date of the relevant Liquidity Facility Agreement; and (b) the aggregate of any amounts payable by the Issuer to the relevant Liquidity Facility Provider in respect of its obligation to gross up any payments made by it in respect of such Liquidity Facility as a result of such Liquidity Facility Provider ceasing to be a Liquidity Facility Provider or to make any payment of increased costs to such Liquidity Facility Provider (other than any such increased costs in

respect of regulatory changes relating to capital adequacy requirements applicable to such Liquidity Facility Provider) or to amounts payable on an accelerated basis as a result of illegality (excluding accrued interest, principal and commitment fees) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subscription Agreement**" means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 6 to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).

"**Subsidiary**" means:

(a) a subsidiary within the meaning of section 736 of the Companies Act; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act.

"**Substantial Effects Clause**" means a clause which may be contained in the licence of a Regulated Company and which is contained in the Licence of SWS at Part IV of Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its licence, request price limits to be reset if the Appointed Business either: (a) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (b) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

"**Successor**" means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s) for which it is substituted) as may, from time to time, be nominated, in each case, by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

"**Super-Majority Creditor**"	means the Class A DIG Representatives in respect of more than 66 per cent. of the Voted Qualifying Class A Debt or, following the repayment in full of the Class A Debt, the Class B DIG Representatives in respect of more than 66 per cent. of the Voted Qualifying Class B Debt, in each case, subject to Clause 8 (*Modifications, Consents and Waivers*) and Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amounts of Qualifying Debt*) of the STID as summarised in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Super-Majority Creditor Decisions*".
"**Supplemental Deed**"	means a deed supplemental to the STID entered into by the Security Trustee on its own behalf and on behalf of the Secured Creditors in the circumstances referred to in Clause 2.1 (*Accession of Additional Secured Creditor*) or Clause 3 (*Additional Finance Documents*) of the STID.
"**Surveillance Letter**"	means a letter issued by the Issuer and/or SWS to a Financial Guarantor from time to time, in which the Issuer and/or SWS undertake to provide the relevant Financial Guarantor with certain information and to comply with certain reporting requirements as outlined in that letter.
"**SW Tax Deed of Covenant**"	means the deed of covenant entered into on the Initial Issue Date (as amended from time to time) by, among others, the Security Trustee, SWI, MBIA Assurance S.A. (now Assured Guaranty as described herein) and the Obligors.
"**SWC**"	means Southern Water Capital Limited.
"**SWEPST**"	means Southern Water Executive Pension Scheme Trustees Limited, although this no longer performs any function.
"**SWI**"	means Southern Water Investments Limited.
"**SWPS**"	means the Southern Water Pension Scheme for SWS employees.
"**SWPT**"	means Southern Water Pension Trustees Limited.
"**SWS**" or "**Southern Water**"	means Southern Water Services Limited.
"**SWS Business Financial Model**"	means the business Financial model prepared by SWS and delivered to the Security Trustee from time to time.
"**SWS Change of Control**"	means the occurrence of any of the following events or circumstances: (a) SWSGH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to control, SWSH; (b) SWSH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued ordinary share capital of, or otherwise ceasing to control, SWS; or (c) SWS ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise

ceasing to control, the Issuer and the SWS Pension Companies.

"**SWS Event of Default**"	means the events of default set out in Part 2 (*Events of Default* (*SWS*)) of Schedule 7 (*Events of Default*) to the CTA.
"**SWS Financing Group**"	means SWSGH, SWSH, SWS, the Issuer and any other Permitted Subsidiaries.
"**SWS Pension Schemes**"	means the Southern Water Pension Scheme and the Southern Water Executive Pension Scheme.
"**SWS Preference Share Conversion Event**"	means an exercise of a Conversion Option as defined in SWS's articles of association.
"**SWS Preference Share Deed**"	means the deed entered into by, among others, the initial holders of the SWS Preference Shares and the Security Trustee.
"**SWS Preference Shareholders**"	means the holders of the SWS Preference Shares from time to time.
"**SWS Preference Shares**"	means the Class A1 Preference Shares, the Class A2 Preference Shares and the Class B Preference Shares.
"**SWS VAT Group**"	means the VAT group registration comprising SWI, SWS and SWC of which SWS is the representative member.
"**SWS WRMP**"	means the water resources strategy that SWS has developed for the next 25 years, which was approved by DEFRA and published on 1 October 2009.
"**SWSG**"	means Southern Water Services Group Limited, a company incorporated under the laws of England and Wales (registered number 0437 4956) and the holding company of the SWS Financing Group.
"**SWSGH**"	means SWS Group Holdings Limited.
"**SWSH**"	means SWS Holdings Limited.
"**SWS/SWSG Debt Service Distribution**"	means any Distribution or payment in respect of a Permitted Tax Loss Transaction to be made by SWS for the purpose of providing SWSG with the funds required to enable SWSG to meet its scheduled payment obligations under the SWS/SWSG Loan Agreement.
"**SWS/SWSG Loan**"	means the principal amount outstanding under the SWS/SWSG Loan Agreement from time to time.
"**SWS/SWSG Loan Agreement**"	means the loan agreement entered into between the Security Trustee, SWS and SWSG on the Initial Issue Date evidencing the terms of the SWS/SWSG Loan.
"**Talonholders**"	means the several persons who are for the time being holders of the Talons.
"**Talons**"	means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) and includes any replacements for Talons issued

pursuant to Condition 14 (*Replacement of Bonds. Coupons, Receipts and Talons*).

"**TARGET Settlement Day**"	has the meaning given to such term in Condition 6(s) (*Definitions*) as set out in Chapter 8 "*Terms and Conditions of the Bonds*".
"**Tax**"	means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest), and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions will be construed accordingly.
"**Tax Deeds of Covenant**"	means the SW Tax Deed of Covenant.
"**TDC Breach**"	means any breach of any covenant or representation given by, or other obligation imposed upon, any person in either of the Tax Deeds of Covenant which is considered to constitute a TDC Breach, in accordance with the terms of the relevant Tax Deed of Covenant (which, among other things, prevents a breach being a TDC Breach unless it causes, or could reasonably be expected to cause, a Material Adverse Effect).
"**Temporary Global Bond**"	Means, in relation to any Sub-Class of Bearer Bonds, a temporary global bond in the form or substantially in the form set out in Schedule 2, Part A to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.
"**Test Period**"	means: (a) the period of 12 months ending on 31 March in the then current year; (b) the period of 12 months starting on 1 April in the same year; (c) each subsequent 12-month period up to the Date Prior; and (d) if the Calculation Date falls within the 13-month period immediately prior to the Date Prior, the 12-month period from the Date Prior.
"**Third Issue Date**"	means 27 May 2005.
"**Third Issuer/SWS Loan Agreement**"	means the loan agreement entered into between the Issuer and SWS on 27 May 2005.
"**Tranche**"	means all Bonds which are identical in all respects (save for the Issue Date, Interest Commencement Date and Issue Price).
"**Transaction Documents**"	means: (a) a Finance Document;

	(b) a Material Capex Agreement or a Material O&M Agreement; and (c) any other document designated as such by the Security Trustee and the Issuer.
"**Transfer Agent**"	means Deutsche Bank AG London under the Agency Agreement, including any Successor thereto.
"**Transfer Scheme**"	means a transfer scheme under Schedule 2 to the WIA.
"**Treasury Transaction**"	means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or opinion contract, foreign exchange or currency purchase or sale agreement, interest rate swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate or price.
"**Trigger Credit Rating**"	means each credit rating identified as such in Chapter 7 "*Summary of the Financing Agreements*" under "*Trigger Events*".
"**Trigger Event**"	means any of the events or circumstances identified as such in Chapter 7 "*Summary of the Financing Agreements*" under "*Trigger Events*".
"**Trigger Event Consequences**"	means any of the consequences of a Trigger Event identified as such in Chapter 7 "*Summary of the Financing Agreements*" under "*Trigger Event Consequences*".
"**Trigger Event Ratio Levels**"	means the financial ratios set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Trigger Events: Financial Ratios*".
"**Trigger Event Remedies**"	means any remedy to a Trigger Event as identified in Chapter 7 "*Summary of the Financing Agreements*" under "*Trigger Event Remedies*".
"**UK**"	means the United Kingdom.
"**Unrestricted Chargor**"	means each of SWSH and SWSGH and any other entity which accedes to the Security Agreement pursuant to Clause 27.3 (*Assignments and Transfers*) thereof that is not restricted by its regulatory or statutory obligations from providing guarantees to any other entity.
"**Unrestricted Secured Liabilities**"	means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Unrestricted Chargor to any Secured Creditor under each Finance Document to which such Unrestricted Chargor is a party, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of Section 151 of the Companies Act 1985.
"**Unwrapped Debt**" or "**Unwrapped Bond**"	means any indebtedness or bond (respectively) that does not have the benefit of a guarantee from a Financial Guarantor.
"**Unwrapped Bondholders**"	means the holders for the time being of the Unwrapped Bonds, and "**Unwrapped Bondholder**" shall be construed accordingly.

"**UWWTD**"	means the Urban Waste Water Treatment Directive (91/271/EEC).
"**VAT**"	(a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereto and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.
"**Voted Qualifying Class A Debt**"	means the aggregate Outstanding Principal Amount of Class A Debt voted by the Class A DIG Representatives in accordance with the applicable provisions of the STID as part of the Class A DIG.
"**Voted Qualifying Class B Debt**"	means the aggregate Outstanding Principal Amount of Class B Debt voted by the Class B DIG Representatives in accordance with the applicable provisions of the STID as part of the Class B DIG.
"**Water Act**"	means the United Kingdom Water Act 2003.
"**Water Quality Regulations**"	means the Water Supply (Water Quality) Regulations 2000, as amended by subsequent legislation.
"**Water Region**"	means the geographical area for which a Regulated Company has been appointed as water undertaker under Section 6 of the WIA.
"**Water White Paper**"	means the white paper "Water for Life", published by the Government on 8 December 2011.
"**WIA**"	means the United Kingdom Water Industry Act 1991 (as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992 and the WIA 99).
"**WIA 99**"	means the United Kingdom Water Industry Act 1999.
"**WRA**"	means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.
"**Wrapped Bondholders**"	means the holders for the time being of the Wrapped Bonds, and "**Wrapped Bondholder**" shall be construed accordingly.
"**Wrapped Debt**" or "**Wrapped Bond**"	means any indebtedness or bond (respectively) that has the benefit of a guarantee from a Financial Guarantor.
"**WSRA**"	means the Water Services Regulation Authority.
"**Zero Coupon Bond**"	means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

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