

## Declaration by the directors of a holding company in relation to assistance for the acquisition of shares

**155(6)b**

Page 1

The assistance is for the purpose of ~~that acquisition~~ [reducing or discharging a liability incurred for the purpose of that acquisition].† (note 1)

Please do not write in this margin

Please complete legibly, preferably in black type, and in bold block lettering

The number and class of the shares acquired or to be acquired is: 5,000,000 ordinary shares  
of £1 each

The assistance is to be given to: (note 2) See Appendix 2

The assistance will take the form of:

See Appendix 3

The person who [has acquired] ~~will acquire~~ the shares is:  
Southern Water Services (Finance) Limited

† delete as appropriate

The principal terms on which the assistance will be given are:

See Appendix 4

The amount (if any) by which the net assets of the company which is giving the assistance will be reduced by giving it is up to £60 million

The amount of cash to be transferred to the person assisted is £ See Appendix 5

The value of any asset to be transferred to the person assisted is £ Nil

Please do not  
write in this  
margin

The date on which the assistance is to be given is See Appendix 6

Please complete  
legibly, preferably  
in black type, or  
bold block lettering

I/We have formed the opinion, as regards this company's initial situation immediately following the date on which the assistance is proposed to be given, that there will be no ground on which it could then be found to be unable to pay its debts. (note 3)

\* delete either (a) or  
(b) as appropriate

(a) [I/We have formed the opinion that this company will be able to pay its debts as they fall due during the year immediately following that date]\* (note 3)

(b) ~~I/We intend to commence the winding up of this company within 12 months of that date, and I/We have formed the opinion that this company will be able to pay its debts as they fall due within 12 months of commencing the winding up~~\* (note 3)

And I/we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1835.

Declared at Saithu Hare  
Yeona Road  
Waltham

Declarants to sign below

Stuart Derwent STUART DERWENT

Day Month Year  
on 

3	1	0	7	2	0	0	2
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before me [Signature]

A Commissioner for Oaths or Notary Public or Justice of the Peace or a Solicitor having the powers conferred on a Commissioner for Oaths.

## NOTES

- 1 For the meaning of "a person incurring a liability" and "reducing or discharging a liability" see section 152(3) of the Companies Act 1985.
- 2 Insert full name(s) and address(es) of the person(s) to whom assistance is to be given; if a recipient is a company the registered office address should be shown.
- 3 Contingent and prospective liabilities of the company are to be taken into account - see section 156(3) of the Companies Act 1985.
- 4 The auditors report required by section 156(4) of the Companies Act 1985 must be annexed to this form.
- 5 The address for companies registered in England and Wales or Wales is:-

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF14 3UZ

or, for companies registered in Scotland:-

The Registrar of Companies  
Companies House  
37 Castle Terrace  
Edinburgh  
EH1 2EB

**[Declaration #67]**

**Appendices to Companies Form No. 155(6)b (Declaration by the directors of a holding company in relation to assistance for the acquisition of shares.)**

**Form 155(6)b**

**Southern Water Services Group Limited**

**APPENDIX 1 – Directors**

Jean Claude Banon of 37 Warwick Gardens, London, W14 8PH

James Alexander Bryce of 29 Fawe Park Road, Putney, London, SW15 2EB

Rory Malcolm Cullinan of 25 Oakwood Court, Abbotsbury Road, London, W14 8JU

Stuart Derwent of 19 Withdean Crescent, Brighton, East Sussex, BN1 6WG

David Ronald Giffin of 21 Barnton Gardens, Edinburgh, Midlothian, EH4 6AE

Pierre-Francois Riolacci of 7 Boulevard Julien Potin, 92200 Neuilly Sur Seine, France and

Robert Peter Thian of 15A Princes Gate Mews, London, SW7 2PS

**Form 155(6)b**

**Southern Water Services Group Limited**

**APPENDIX 2 – Person(s) to whom the assistance is to be given**

Southern Water Services (Finance) Limited, whose registered office is at PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies ("SWSF").

Southern Water Limited whose registered office is at Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX ("SWL").

Southern Water Services Group Limited whose registered office is at Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX ("SWSG").

Southern Water Services Group Limited

APPENDIX 3 – Form of assistance

Financial assistance will be provided by Southern Water Services Limited ( "SWS") by:-

- (i) making payment to SWL of a sum representing accrued interest (up to, but not including, the date of such payment) pursuant to a loan agreement between SWL and SWS (the "**SWL/SWS Loan Agreement**") other than on a date upon which interest is required to be paid pursuant to such agreement;
- (ii) making payment to SWSG of a sum representing accrued interest (up to, but not including, the date of such payment) pursuant to a loan agreement between SWSG and SWS dated 25 June 2002 (as amended) (the "**SWSG/SWS Loan Agreement**") other than on a date upon which interest is required to be paid pursuant to such agreement;
- (iii) making payment to SWSF of a sum representing accrued interest (up to, but not including, the date of such payment) pursuant to a loan agreement between SWSF and SWS (the "**SWSF/SWS Loan Agreement**") other than on a date upon which interest is required to be paid pursuant to such agreement;
- (iv) entry into and performance by SWS of a novation agreement with SWSG and SWSF (the "**First Novation Agreement**") pursuant to which, *inter alia*:
  - (a) SWS will grant a loan to SWSG in the amount of approximately £1,330.4 million, such loan to be on the terms of a loan note to be issued by SWSG in favour of SWS (the "**SWSG Loan Note**"); and
  - (b) SWS will agree with SWSG that it will be deemed to have repaid all of its borrowings from SWSG under the SWSG/SWS Loan Agreement; and
  - (c) SWS will assume indebtedness to SWSF in the principal amount of approximately £1,924.8 million;
- (v) entry into and performance by SWS of a letter agreement with SWL pursuant to which *inter alia* SWS will agree that its then existing indebtedness to SWL in respect of an outstanding intercompany balance of up to approximately £16.2 million will, with effect from such time, be treated as borrowings under, and so be consolidated with SWS's then existing outstanding borrowings under, the SWL/SWS Loan Agreement (the "**Letter Agreement**");
- (vi) entry into and performance by SWS of a sale and purchase agreement with SWL and SWSG (the "**Loan Note Sale and Purchase Agreement**") pursuant to which, *inter alia*:
  - (d) SWS will agree with SWL that it will be deemed to have repaid all of its borrowings from SWL under the SWL/SWS Loan Agreement; and
  - (e) SWS will grant a loan to SWL in the amount of up to approximately £818.7 million, such loan to be on the terms of a loan note to be issued by SWL in favour of SWS (the "**Second Loan Note**");

- (vii) entry into and performance by SWS of a novation and sale and purchase agreement with SWSG and SWL (the "**Novation and Sale and Purchase Agreement**") pursuant to which, *inter alia*, SWS will agree to the novation by SWL to SWSG of SWL's obligation to SWS under the Second Loan Note which, at the time of such novation, will be in respect of a principal amount of up to approximately £818.7 million;
- (viii) entry into and performance by SWS of a security agreement with SWSF, SWSH Limited, SWSGH and the Security Trustee (the "**Security Agreement**") pursuant to which, *inter alia*, SWS will guarantee the performance and observance of the Restricted Chargors of all Restricted Secured Liabilities under the Finance Documents and indemnify the Security Trustee immediately on demand against any loss or liability suffered by the Security Trustee or any Secured Creditor if any obligations guaranteed becomes unenforceable, invalid, illegal or ineffective;
- (ix) entry into and performance by SWS of a security trust and intercreditor deed between, among others, the Obligors, the Bond Trustee, the Security Trustee and the Initial Financial Guarantors (the "**STID**") pursuant to which, *inter alia*, SWS will give certain restrictive undertakings in respect of, among other things, its ability to undertake certain activities and the conduct of its business, acknowledge that the claims of each Secured Creditor will rank in accordance with certain agreed provisions as to the order or priority of payments at all times and give certain indemnities;
- (x) entry into and performance by SWS of a common terms agreement between, among others, the Obligors, the Bond Trustee, the Security Trustee and the Initial Financial Guarantors (the "**Common Terms Agreement**"), pursuant to which, *inter alia*, SWS will make certain representations, agree to be bound by certain covenants, give certain indemnities and agree to pay certain costs and expenses;
- (xi) entry into and performance by SWS of a bond trust deed between the Obligors, the Bond Trustee and MBIA (the "**Bond Trust Deed**"), pursuant to which, *inter alia*, SWS will give certain indemnities to the Bond Trustee, the Appointees, the Bondholders, the Receiptholders, the holders of interest coupons relating to certain Bonds and the Financial Guarantors;
- (xii) entry into and performance by SWS of a guarantee and reimbursement deed between, among others, SWS, SWSF and MBIA (the "**MBIA G&R Deed**"), pursuant to which, *inter alia*, SWS will make certain representations and warranties, give certain covenants, grant a guarantee to MBIA and grant certain indemnities to MBIA;
- (xiii) entry into and performance by SWS of a loan insurance and indemnity agreement between, among others, SWS, SWSF and FSA (the "**Loan I & I Agreement**"), pursuant to which, *inter alia*, SWS will make certain representations and warranties, give certain covenants, grant a guarantee to FSA and grant certain indemnities to FSA;
- (xiv) entry into and performance by SWS of an agency agreement between the Principal Paying Agent, Deutsche Bank AG London as transfer agent and agent bank and Deutsche Bank Luxembourg S.A. as registrar (the "**Agents**") the Obligors and the Bond Trustee (the "**Agency Agreement**"), pursuant to which, *inter alia*, SWS will (failing SWSF so indemnifying) indemnify each of the Agents against certain losses incurred by or made against it and undertake to pay certain amounts due under the Agency Agreement in the event that SWSF does not pay such amounts;

- (xv) entry into and performance by SWS of a letter agreement with FSA (the "**FSA Fee Letter**") pursuant to which SWS will agree to pay certain fees to FSA in certain specified circumstances;
- (xvi) entry into and performance by SWS of a loan agreement with SWSF and the Security Trustee (the "**New SWSF/SWS Loan Agreement**") pursuant to which, *inter alia*, SWS will grant an indemnity and pay to SWSF certain fees and expenses;
- (xvii) repayment to SWSF of all outstanding indebtedness owed to it by SWS under the SWSF/SWS Loan Agreement and pursuant to the First Novation Agreement; and
- (xviii) entry into and performance by SWS of a loan agreement with SWSG and the Security Trustee (the "**New SWS/SWSG Loan Agreement**") pursuant to which, *inter alia*, SWS and SWSG will agree that the terms applicable to the existing indebtedness of SWSG to SWS pursuant to the Second Loan Note will from such time be governed by the New SWS/SWSG Loan Agreement and the rights and obligations of SWS and SWSG under the Second Loan Note will be extinguished.



**Southern Water Services Group Limited**

**APPENDIX 4 – Principal terms upon which the assistance will be given**

- (i) The payment referred to in paragraph (i) of Appendix 3 which may be made otherwise than on a date upon which SWS is required to pay interest under the SWL/SWS Loan Agreement, will be made in satisfaction of SWS's obligations to pay interest accruing up to (but not including) the date of such payment pursuant to the SWL/SWS Loan Agreement.
- (ii) The payment referred to in paragraph (ii) of Appendix 3, which may be made otherwise than on a date upon which SWS is required to pay interest under the SWSG/SWS Loan Agreement, will be made in satisfaction of SWS's obligations to pay interest accruing up to (but not including) the date of such payment pursuant to the SWSG/SWS Loan Agreement.
- (iii) The payment referred to in paragraph (iii) of Appendix 3, which may be made otherwise than on a date upon which SWS is required to pay interest under the SWSF/SWS Loan Agreement, will be made in satisfaction of SWS's obligations to pay interest accruing up to (but not including) the date of such payment pursuant to the SWSF/SWS Loan Agreement.
- (iv) Under the First Novation Agreement, a loan agreement dated 8 March 2002 (as amended) between SWSF and SWSG pursuant to which, at the time the First Novation Agreement is entered into, SWSG will have indebtedness to SWSF in the principal amount of approximately £1,924.8 million will be novated to be between SWS and SWSF such that SWS will become the borrower under such agreement in place of SWSG. Pursuant to this First Novation Agreement:
  - (a) SWS and SWSG will agree that all of the outstanding indebtedness and other obligations of SWS (in the principal amount of approximately £594.4 million at the time First Novation Agreement is entered into) under the SWSG/SWS Loan Agreement shall be deemed to have been repaid and discharged in full; and
  - (b) SWS will grant a loan to SWSG in the principal amount of up to approximately £1,330.4 million, such loan to be on the terms of the SWSG Loan Note issued to SWS. The SWSG Loan Note will be repayable on 30 June 2038, but will also be repayable at any time prior to such date at the option of SWSG and at any time prior to that date but after 30 June 2005 upon demand of SWS. The SWSG Loan Note will also be repayable at any time at the option of SWS in the event that certain default events occur, including SWSG failing to pay within 21 days of the due date any sum payable by it in respect of any of its indebtedness, or an order being made or resolution passed for the winding-up of SWSG or if an administration order is made in respect of SWSG or an administrative receiver appointed in respect of the whole or a substantial part of its assets.

Interest will be payable on the principal amount outstanding under the SWSG Loan Note at the rate of 7.012% per annum and will be payable quarterly. The SWSG Loan Note may be transferred by SWS subject to the conditions contained in the SWSG Loan Note and to the consent of SWSG; and

- (c) SWS will assume indebtedness to SWSF in the principal amount of approximately £1,924.8 million. The terms applicable to such indebtedness are the same as those described in sub-paragraph (b) above in respect of the loan to SWSG in relation to interest payments. The loan is repayable at any time at the option of SWS and is repayable upon demand in certain circumstances by SWSF.
- (v) Under the Letter Agreement, SWS will *inter alia* agree that its then existing indebtedness to SWL in respect of an outstanding intercompany balance of up to approximately £16.2 million will, with effect from the date of such agreement, be treated as borrowings under, and so be consolidated with, SWS's then existing outstanding borrowings under the SWL/SWS Loan Agreement. The outstanding intercompany balance referred to in the previous sentence is repayable on demand of either SWS or SWL and does not bear interest. Borrowings under the SWL/SWS Loan Agreement will also be repayable on demand of either SWS or SWL but will bear interest at 5.3% per annum payable quarterly.
- (vi) Under the Loan Note Sale and Purchase Agreement, the SWSG Loan Note will be transferred by SWS to SWL. In consideration of this:
  - (a) SWS and SWL will agree that all of the outstanding indebtedness and other obligations of SWS (in the principal amount of up to approximately £511.7 million at the time the Loan Note Sale and Purchase Agreement is entered into) under the SWL/SWS Loan Agreement shall be deemed to have been repaid and discharged in full; and
  - (b) SWS will grant a loan to SWL in the principal amount of up to approximately £818.7 million, such loan to be on the terms of the Second Loan Note issued to SWS. The Second Loan Note will be repayable on 30 June 2038, but will also be repayable at any time prior to such date at the option of SWL and at any time prior to that date but after 30 June 2005 upon demand of SWS. The Second Loan Note will also be repayable at any time at the option of SWS in the event that certain default events occur, including SWL failing to pay within 21 days of the due date any sum payable by it in respect of any of its indebtedness, or an order being made or resolution passed for the winding-up of SWL or if an administration order is made in respect of SWL or an administrative receiver appointed in respect of the whole or a substantial part of its assets.

Interest will be payable on the principal amount outstanding under the Second Loan Note at the rate of 7.012% per annum and will be payable quarterly. The Second Loan Note may be transferred by SWS subject to the conditions contained in the Second Loan Note and to the consent of SWL.
- (vii) Under the Novation and Sale and Purchase Agreement, SWS will, *inter alia*, agree to the novation by SWL to SWSG of SWL's obligations to SWS under the Second Loan Note which at the time the Novation and Sale and Purchase Agreement is entered into will be in the principal amount of up to approximately £818.7 million. The Second Loan Note will otherwise remain on the same terms as described in paragraph (vi) above.
- (viii) Under the Security Agreement, SWS will, *inter alia*, grant a first fixed charge over:
  - (a) all of its present and future estates or interests in any freehold or leasehold property (except for Excluded Property) and any rights under any licence agreements which gives it a right to occupy together with Fixtures, including any proceeds of disposals of land;

- (b) all plant, machinery, office equipment, computers, vehicles and other chattels owned by it;
- (c) all moneys (including interest) standing to the credit of its present and future bank accounts and the debts represented thereby;
- (d) all intellectual property rights and certain IT licence agreements;
- (e) all benefits in respect of SWS's insurance policies and all claims and returns of premiums in respect thereof;
- (f) all present and future book debts ;
- (g) all rights and benefits under each of the Transaction Documents ;
- (h) any beneficial interest, claim or entitlement of it to any assets of the Pension Companies;
- (i) its present and future goodwill and any present and future uncalled capital and rights in relation to such uncalled capital;
- (j) the benefit of all present and future licences, permissions, consent and authorisations (statutory and otherwise);
- (k) all Securities and Related Rights accruing thereto owned now or in the future by it; and
- (l) all rights and benefits under any certain investments, including securities, deposits, short-term unsecured debt obligations, money market funds or equivalent investments.

Under the Security Agreement, SWS will also, *inter alia*:

- (a) grant a first fixed charge over the shares in its subsidiaries and all Related Rights thereto;
  - (b) assign (1) all of its right, title and interest to each Transaction Document, (2) its rights in respect of SWS's insurance policies, (3) its present and future rights, title and interest in and to the proceeds of any claims in respect of such insurance policies (4) all damages, compensation, remuneration, profit, rent or income which it may derive in respect of all information technology licence agreements which are not subject to a first fixed charge;
  - (c) charge by way of first floating charge the whole of its undertaking and all its property, assets and rights whatsoever and wheresoever, present and future;
  - (d) covenant to pay and discharge the Restricted Secured Liabilities to any Secured Creditor under the Finance Documents;
  - (e) grant undertakings in favour of the Security Trustee; and
  - (f) grant indemnities to Secured Creditors in respect of liabilities of the Chargors under the Finance Documents.
- (ix) Under the STID, SWS will, *inter alia*:
- (a) give certain restrictive undertakings in respect of, among other things, the Secured Liabilities owed by it, the creation of certain security interests over its assets, guarantees, indemnities or other assurances against financial loss in respect of the

Secured Liabilities owed by it and action whereby any subordination contemplated by the STID may be impaired;

- (b) acknowledge that each Secured Creditor's claims will rank according to certain agreed provisions as to the order or priority of payments;
  - (c) indemnify each Secured Creditor against the amount of all costs and expenses properly incurred by it in connection with the enforcement against that Obligor of such person's rights against it under the Finance Documents; and
  - (d) indemnify the Security Trustee against all liabilities, actions, proceedings, costs, claims, expenses and demands properly incurred by it or any person appointed by it in the execution or purported execution of the trusts, powers, authorities or discretions vested in it by the STID or any Finance Document.
- (x) Under the Common Terms Agreement, SWS will, *inter alia*:
- (a) indemnify each Finance Party against any loss or liability which that Finance Party properly incurs as a consequence of (a) that Finance Party receiving an amount in respect of an Obligor's liability under the Finance Documents, or (b) that liability being converted into a claim, proof, judgment or order, in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document;
  - (b) indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of (a) (other than by reason of negligence or default by that Finance Party) any financial accommodation not being given after a Request has been delivered for that financial accommodation, or (b) any financial accommodation provided to any Obligor not being prepaid in accordance with a notice of prepayment, in each case, including any loss or expense on account of funds borrowed, contracted for or utilised to fund any amount payable under any Finance Document, any amount repaid or prepaid or any relevant financial accommodation; and
  - (c) indemnify the Security Trustee against any loss or liability incurred by the Security Trustee as a result of (a) investigating any event which the Security Trustee reasonably believes to be an event of default under the agreement or an 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 an event giving rise to an event of default or (b) acting or relying on any notice which the Security Trustee reasonably believes to be genuine, correct and appropriately authorised;
  - (d) agree to pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by such Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document; and
  - (e) indemnify and keep indemnified the Standstill Cash Manager fully and effectively from and against all losses, liabilities, claims, actions, damages and for all proper costs and expenses (including proper legal fees and disbursements) which the Standstill Cash Manager incurs by reason of its acting as Standstill Cash Manager (other than by reason of negligence, fraud, bad faith or wilful misconduct by the Standstill Cash Manager or its failure to comply with generally accepted practices within the banking market) but excluding any losses, liabilities, claims, actions,

damages, costs and expenses incurred by the Standstill Cash Manager to the extent that the same arise from any breach by the Standstill Cash Manager of its obligations under the Common Terms Agreement, the STID or the Account mandates.

(xi) Under the Bond Trust Deed, SWS will, *inter alia*:

- (a) indemnify and keep indemnified the Bond Trustee and every Appointee against all liabilities which may be incurred by it or him relating to the Bond Trust Deed; and
- (b) indemnify and keep indemnified the Bond Trustee, every Appointee, the Bondholders, the Receipholders, the holders of interest coupons relating to certain Bonds and the Financial Guarantors against Liabilities incurred by any of them and deficiencies arising or resulting from variations in rates of exchange.

(xii) Under the MBIA G & R Deed, SWS will, *inter alia*:

- (a) guarantee to MBIA the punctual payment by the Issuer of any and all sums and fees due and payable by the Issuer to MBIA under the MBIA G & R Deed and the other MBIA Documents including, for the avoidance of doubt, the fees payable to MBIA in respect of any Financial Guarantees issued by MBIA, and any Taxes or gross up required to be made by the Issuer under the MBIA Documents in respect of or applicable to the payment of such sums and fees, and indemnify MBIA immediately on demand against any loss suffered by MBIA if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal or ineffective;
- (b) reimburse MBIA for any losses which MBIA or any MBIA Relevant Party may properly pay or incur in connection with investigating, disputing or defending any action or claim; and
- (c) make certain representations and warranties and covenant with MBIA to comply with the covenants contained in the Common Terms Agreement, the Shareholder Tax Deed of Covenant and the SW Tax Deed of Covenant;

(xiii) Under the Loan I & I Agreement, SWS will, *inter alia*:

- (a) guarantee to FSA the punctual payment by the Issuer of any and all sums and fees due and payable by the Issuer to FSA under the Loan I & I Agreement and the other FSA Documents including, for the avoidance of doubt, the fees payable to FSA pursuant to a Financial Guarantee Fee Letter, and any Taxes or gross up required to be made by the Issuer under the FSA Documents in respect of or applicable to the payment of such sums and fees, and indemnify FSA immediately on demand against any loss suffered by FSA if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal or ineffective; and
- (b) make certain representations and warranties and covenant with FSA to comply with the covenants contained in the Common Terms Agreement.

(xiv) Under the Agency Agreement, SWS will, *inter alia*, agree to (failing SWSF so paying):

- (a) before 11.00 a.m. (local time in the relevant financial centre of the payment (which, in the case of a payment in euro will be central European time) or, in the case of a payment in sterling, London time), on each date on which any payment in respect of any Bond becomes due under the Conditions, transfer to an account specified by the Principal Paying Agent an amount in the relevant currency sufficient for the

purposes of the payment in funds settled through such payment system as the Principal Paying Agent and the Issuer may agree in accordance with the Agency Agreement;

- (b) pay to the Principal Paying Agent on demand interest (at a rate which represents the Principal Paying Agent's cost of funding the Shortfall) on the Shortfall (or the unreimbursed portion thereof) until the receipt in full by the Principal Paying Agent of the Shortfall;
  - (c) pay to the Principal Paying Agent its expenses causing notice of receipt of any amount to be published;
  - (d) pay to the Principal Paying Agent such fees and commissions as the Issuer, the Guarantors and the Principal Paying Agent shall separately agree in respect of the services of the Agents under the Agency Agreement together with any reasonable out of pocket expenses (including legal, printing, postage, fax, cable and advertising expenses) properly incurred by the Agents in connection with their services;
  - (e) indemnify each of the Agents against any losses (including, but not limited to, certain expenses paid or incurred in disputing or defending any losses) which it may incur or which may be made against it as a result of or in connection with its appointment or the exercise of its powers and duties under the Agency Agreement except for any losses or expenses resulting from its own default, negligence or bad faith or that of its officers, directors or employees or the breach by it of the terms of the Agency Agreement;
  - (f) pay to an Agent, upon its resignation or removal becoming effective, the commissions, fees and expenses payable in respect of its services under the Agency Agreement before termination in accordance with the terms of the Agency Agreement;
  - (g) pay to the Principal Paying Agent its expenses in giving or causing to be given notice of changes to Agents to the Bondholders;
  - (h) pay to the Principal Paying Agent its expenses in giving or causing to be given notice of a change of an Agent's specified office to the Bondholders; and
  - (i) pay any and all stamp duty, registration or other similar Taxes payable in connection with the execution, delivery, performance and enforcement of this Agreement.
- (xv) Under the FSA Fee Letter, SWS will (in consideration of FSA agreeing to enter into certain documents) agree that, if any Obligor pays or is required to pay any amount to any Financial Guarantor other than FSA (an "**Other Financial Guarantor**") by way of a fee, increased premium or other amount charged by such Other Financial Guarantor as a condition to such Other Financial Guarantor agreeing to or executing any amendment waiver or consent in relation to any of the Finance Documents, and if FSA agrees to, or agrees to execute, any similar amendment waiver or consent, SWS will pay to FSA a proportional amount of such fee, increased premium or other amount (calculated by reference to the principal amount of indebtedness of the Obligors guaranteed by FSA compared to the principal amount of indebtedness of the Obligors guaranteed by the Other Financial Guarantors).

- (xvi) Under the New SWSF/SWS Loan Agreement, SWSF will make advances to SWS on the date of entry into such agreement in the aggregate sum of up to approximately £2,103 million. Borrowings under the New SWSF/SWS Loan Agreement will be divided into tranches such that the interest rate, interest periods and maturity of each tranche matches the interest rate, interest periods and maturity of the corresponding Sub-Class of the Bonds and advances under the Mezzanine Facility Agreements or, where such Bonds or advances are the subject of Interest Rate Hedging Agreements or Currency Hedging Agreements, the rates, interest periods and terms applicable to those Hedging Agreements (subject to the interest rates payable by SWS on each tranche being subject to an uplift of 0.01 per cent. per annum). SWS may, in certain circumstances, prepay the whole or part of any tranche of the borrowings subject to the terms of the New SWSF/SWS Loan Agreement and the terms of the Common Terms Agreement and the STID. Pursuant to the New SWSF/SWS Loan Agreement SWS will, *inter alia*, agree to pay various fees to or to the order of SWSF, arising both before and, until the obligations of SWS under the Agreement are discharged in full, after the date of entry into the New SWSF/SWS Loan Agreement, including, *inter alia*, the fees, costs, charges liabilities and expenses payable by the Lender to the Bond Trustee pursuant to the Bond Trust Deed and to the Security Trustee pursuant to the Security Agreement and the STID, the fees and expenses of any legal advisers, accountants and auditors appointed by SWSF, the Security Trustee or the Bond Trustee, fees, costs, charges, liabilities and expenses and any other amounts due and payable to MBIA pursuant to the relevant G&R Deed, fees and expense due and payable to the Dealers and the fees and expenses of legal, accounting or other advisers appointed by them, fees payable to the original lenders under the Initial RCF Agreement and the Initial Term Facility Agreement entered into by SWSF, and amounts due and payable by SWSF to certain credit rating agencies. SWS will also agree to indemnify SWSF and/or the Security Trustee in respect of certain matters including any amount payable by SWSF to the Bond Trustee pursuant to the Bond Trust Deed, to the Security Trustee pursuant to the Security Agreement and the STID and to the Initial Financial Guarantor pursuant to or in respect of the relevant G&R Deed certain liabilities imposed on SWSF in respect of tax in respect of sums received or receivable by SWSF under the New SWSF/SWS Loan Agreement;
- (xvii) SWS will repay all of its outstanding indebtedness owed to SWSF under the SWSF/SWS Loan Agreement and pursuant to the First Novation Agreement, being an aggregate amount up to £2,100 million at the time such payment is made. Such payment may be made on a date upon which such indebtedness is not required to be repaid.
- (xviii) The New SWS/SWSG Loan Agreement will supersede the terms of the Second Loan Note such that the terms of the then existing indebtedness of SWSG to SWS pursuant to the Second Loan Note will from the time the New SWS/SWSG Loan Agreement is entered into be governed by the New SWS/SWSG Loan Agreement and the rights and obligations of SWS and SWSG under the Second Loan Note will be extinguished.

Borrowings under the New SWS/SWSG Loan Agreement will be repayable on 31 July 2052. SWSG will be entitled to prepay the whole or any part of the loan at any time by giving not more than 60 and not less than 30 days' notice to SWS. Interest will be payable in respect of borrowings under the SWS/SWSG Loan Agreement at a rate of 7 per cent. per annum and will be payable quarterly. Interest will not be payable on any interest payment date to the extent SWSG has not received funds to enable it to make such interest payment through dividends or certain payments in connection with certain group tax arrangements. Where some or all of the accrued interest is not paid on an interest

payment date, it will be added to the principal amount of the SWS/SWSG Loan Agreement with effect from such date.



**Southern Water Services Group Limited**

**APPENDIX 5 – Amount of cash to be transferred to the person assisted**

Up to £10 million to SWL pursuant to the interest payment referred to in paragraph (i) of Appendix 3.

Up to £15 million to SWSG pursuant to the interest payment referred to in paragraph (ii) of Appendix 3.

Up to £4 million to SWSF pursuant to the interest payment referred to in paragraph (iii) of Appendix 3.

Up to £60 million to SWSF pursuant to the fees and expenses payments referred to in paragraph (xvi) of Appendix 3.

Up to £2,100 million to SWSF pursuant to the repayment of indebtedness referred to in paragraph (xvii) of Appendix 3.

**Form 155(6)b**

**Southern Water Services Group Limited**

**APPENDIX 6 – Date on which the assistance is to be given**

The Financial Assistance is to be given on or around 23 July 2003 or if later, a date within not more than 55 days after the date of this declaration.

**Southern Water Services Group Limited**

**APPENDIX 7 – Definitions**

**"Account"** means any bank account of any Obligor.

**"Account Bank Agreement"** means the account bank agreement dated on or about the date of the Common Terms Agreement between, among others, the Obligors, National Westminster Bank plc (or any successor account bank appointed pursuant to the Account Bank Agreement), the Standstill Cash Manager and the Security Trustee.

**"Additional Secured Creditor"** means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the STID.

**"Appointee"** means any attorney, manager, agent, delegate, nominee, custodian or other person appointed by the Bond Trustee under the Bond Trust Deed.

**"Authorised Credit Facility"** means any facility or agreement entered into by the Issuer or SWS for Class A Debt, Class B Debt or Subordinated Debt as permitted by the terms of the Common Terms Agreement or for the issue of Financial Guarantees in relation thereto, the providers of which have acceded to the STID and the Common Terms Agreement.

**"Bonds"** means the Class A Bonds and/or the Class B Bonds, as the context may require, and **"Bond"** shall be construed accordingly.

**"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.

**"Bondholders"** means the holders from time to time of the Bonds.

**"Chargors"** means the Restricted Chargors and the Unrestricted Chargors, and a **"Chargor"** means any of them.

**"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 as at the Initial Issue Date all debt outstanding under the Class A Bonds and all Currency Hedging Agreements in relation to 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 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 (£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 as at the Initial Issue Date all debt outstanding under the Class B Bonds and all Currency Hedging Agreements in relation to Class B Debt.

**"Class B Preference Shares"** means the fixed (£70 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS.

**"Class B Unwrapped Bonds"** means the Class B Bonds that do 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.

**"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.

**"CP Agreement"** means the conditions precedent agreement, to be dated on or around the date of the Dealership Agreement, between certain of the parties of the Master Definitions Agreement

**"Currency Hedging Agreement"** means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction.

**"Dealers"** means The Royal Bank of Scotland plc and Citigroup Global Markets Limited 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 Tranche and **"Dealer"** means any one of them.

**"Dealership Agreement"** means the agreement dated on or about the Initial Issue Date 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.

**"Excluded Property"** means (other than in respect of any Protected Land):

- (a) any residential property;
- (b) any leasehold property; and
- (c) any other property or properties where together in aggregate the market value of the Chargors' interest(s) in all such properties does not exceed £500,000 (indexed),

**provided that** any such property or interest falling within (a), (b) and/or (c) above will not be Excluded Property where the aggregate market value of the Chargors' interest(s) in any and all properties and interests constituting Excluded Property would exceed £10,000,000 (indexed).

**"Finance Documents"** means:

- (a) the Security Documents;
- (b) the Bond Trust Deed;
- (c) the Bonds (including the applicable Pricing Supplement);
- (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 Initial RCF Agreement;
- (l) the Initial Term Facility Agreement;
- (m) the Liquidity Facility Agreements;
- (n) the Agency Agreement;
- (o) the Mezzanine Facility Agreements;
- (p) the Master Definitions Agreement;
- (q) the Account Bank Agreement;
- (r) the CP Agreement;
- (s) any other Authorised Credit Facilities;
- (t) the Tax Deeds of Covenant;
- (u) the Indemnification Deed;
- (v) the New SWS/SWSG Loan Agreement and SWSG Security Agreement;
- (w) the SWS Preference Share Deed; and
- (x) 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 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 Common Terms Agreement) permitted to be entered into under the terms of the Common Terms Agreement, each a **"Finance Lease"**.

**"Finance Lease Documents"** means each Finance Lease together with any related or ancillary documentation.

**"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 Facilities.

**"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 fees are payable in relation to one or more Financial Guarantees issued or to be issued by that Financial Guarantor and includes the MBIA Guarantee Fee Letter.

**"Financial Guarantees"** means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Debt and **"Financial Guarantee"** shall be construed accordingly.

**"Financial Guarantor"** means any person, including MBIA and FSA, 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.

**"Fixtures"** means, in relation to any freehold or leasehold property charged by or pursuant to this Deed, all fixtures and fittings (including trade fixtures and fittings) and fixed plant and machinery from time to time thereon owned by any Chargor.

**"FSA"** means Financial Security Assurance (U.K.) Limited.

**"FSA Documents"** means the Loan I & I Agreement, the finance document and any documents entered into or as agreed between FSA and Artesian France II plc.

**"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 particular tranche of Class A Wrapped Debt.

**"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, SWS and the Issuer, each a **"Guarantor"**.

**"Hedging Agreement"** means;

- (a) any Treasury Transaction entered or to be entered into by the Issuer with Hedge Counterparties in accordance with the Issuer's agreed hedging policy (the counterparties to which have acceded to the terms of the STID and the Common Terms Agreement and agreed to be bound by certain terms of the Common Terms Agreement; and
- (b) any other Treasury Transaction (the counterparties to which have acceded to the terms of the STID and the Common Terms Agreement and agreed to be bound by certain terms of the Common Terms Agreement) designated a Hedging Agreement by the Security Trustee and the Issuer.

**"Hedge Counterparties"** means (i) the Initial Hedge Counterparties and (ii) 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.

**"Indemnification Deed"** means an indemnification deed between the Obligors, the Dealers and MBIA.

**"Initial Financial Guarantor"** means each of MBIA and FSA.

**"Initial Hedge Counterparties"** means The Royal Bank of Scotland plc and Citibank N.A.

**"Initial Issue Date"** means the date upon which all conditions precedent to the Initial Issue Date, as set out in the CP Agreement, have been fulfilled or waived to the satisfaction of the persons specified in the CP Agreement.

**"Initial RCF"** means the revolving facilities of an aggregate facility amount of £150,000,000 to be made available to SWS by the Initial RCF Provider on or about the Initial Issue Date.

**"Initial RCF Agreement"** means a facility agreement under which the Initial RCF is made available to SWS, or as the case may be, the Issuer.

**"Initial RCF Arranger"** means The Royal Bank of Scotland plc, or any successor thereto.

**"Initial RCF Provider"** means The Royal Bank of Scotland plc or any successor thereto.

**"Initial Term Facility"** means the initial term facility to be made available to the Issuer, by the Initial Term Facility Provider on or about the date of issue of the Bonds.

**"Initial Term Facility Agreement"** means a facility agreement under which any of the Initial Term Facility is made available to the Issuer.

**"Initial Term Facility Arranger"** means The Royal Bank of Scotland plc, or any successor thereto.

**"Initial Term Facility Provider"** means The Royal Bank of Scotland plc, or any successor thereto.

**"Interest Rate Hedging Agreement"** means a Treasury Transaction to swap interest rates.

**"Issuer"** means SWSF

**"Issuer/SWS Loan Agreement"** means any loan agreement entered into between the Issuer and SWS, including the New Issuer/SWS Loan Agreement.

**"Junior Mezzanine Debt"** means the principal amount outstanding of the loan made by the Junior Mezzanine Facility Providers under the Junior Mezzanine Facility Agreement.

**"Junior Mezzanine Facility Agreement"** means the £106,000,000 junior mezzanine facility agreement dated on or about the date of the Common Terms Agreement between the Issuer, the RBS (together with any successor thereto), RBEF Limited, Royal Bank Investments Limited and the Security Trustee.

**"Junior Mezzanine Facility Providers"** mean the 'Lenders' (as defined in the Junior Mezzanine Facility Agreement).

**"Junior Mezzanine Finance Parties"** means RBS, RBEF Limited and the Lenders (as defined in the Junior Mezzanine Facility Agreement).

**"Liquidity Facility Agreement"** means each liquidity facility agreement entered into in accordance with certain terms of the Common Terms Agreement.

**"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 Common Terms Agreement.

**"Master Definitions Agreement"** or **"MDA"** means this Agreement to be dated the same date as the Common Terms Agreement between *inter alia*, the same parties as the parties to the Common Terms Agreement.

**"MBIA"** means MBIA Assurance S.A.

**"MBIA Documents"** means the MBIA G&R Deed, the MBIA Initial Financial Guarantees, the Indemnification Deed, the any Financial Guarantee Fee Letter to which MBIA is a party, the MBIA Surveillance Letter and any other Finance Documents to which MBIA (or any assignee or transferee) is a party.

**"MBIA Initial Financial Guarantees"** means the financial guarantee policy/ies to be issued by MBIA (subject to the terms of the MBIA G&R Deed) in respect of Class A Wrapped Bonds issued on the Initial Issue Date.

**"MBIA Relevant Party"** means in relation to MBIA, any of its parents, subsidiaries and affiliates, and any shareholder, director, officer, employee, agent or "controlling person" (as such term is used in the Securities Act) of any of the foregoing.

**"MBIA Surveillance Letter"** means the letter issued by the Issuer and/or SWS to MBIA on the Initial Issue Date, in which the Issuer undertakes to provide MBIA with certain information and to comply with certain reporting requirements as outlined in that letter.

**"Mezzanine Debt"** means the Senior Mezzanine Debt and the Junior Mezzanine Debt.

**"Mezzanine Facility Agreements"** means the Senior Mezzanine Facility Agreement and the Junior Mezzanine Facility Agreement.

**"Mezzanine Finance Parties"** means the Senior Mezzanine Finance Parties and the Junior Mezzanine Finance Parties.

**"Obligor"** means SWS, SWSGH, SWSH and the Issuer and **"Obligors"** means all of them.

**"Pension Companies"** means Southern Water Executive Pension Scheme Trustees Limited and Southern Water Pension Trustees Limited.

**"Pricing Supplement"** means the pricing supplement 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.

**"Principal Paying Agent"** means Deutsche Bank AG London under the Agency Agreement, or its successors thereto.

**"Programme"** means the £6,000,000,000 guaranteed bond programme to be established by the Issuer and admitted to the Official List of the UK Listing Authority and to the London Stock Exchange.

**"Protected Land"** has the meaning given to it in Section 219 of the Water Industry Act 1991.

**"RBS"** means The Royal Bank of Scotland plc.

**"Receiptholders"** means the several persons who are for the time being holders of receipts attached to Bonds redeemable in instalments for the payment of an instalment of principal.

**"Related Rights"** means all dividends, interest, repayment or redemption proceeds and other distributions paid or payable after the date hereof on all or any of certain shares in subsidiary companies in respect of which security has been granted under the Security Agreement (the **"Group Shares"**) and any Securities and all Securities (and the dividends or interest thereon), rights, money or property accruing or offered at any time by way of redemption, conversion, substitution, exchange, bonus or preference under option rights or otherwise, to, for or in respect of any of the Group Shares and any Securities and all present and future claims, proprietary or otherwise, against depositories, custodians, clearing systems and/or other similar persons (including brokers, banks or the like), in respect of fungible or specific Group Shares, Securities or Related Rights, including any proprietary interest in respect of those fungible or specific Group Shares, Securities or Related Rights.



**"Restricted Chargors"** means each of the Issuer and SWS and any other entity which accedes to the Security Agreement that is restricted from providing guarantees by its regulatory or statutory obligations.

**"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 certain obligations which would result in a contravention of Section 151 of the Companies Act 1985.

**"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 agents under the Liquidity Facility Agreements, each Liquidity Facility Provider, the Initial RCF Arranger, the Initial RCF Agent, the Initial RCF Provider, the Initial Term Facility Arranger, the Initial Term Facility Agent, the Initial Term Facility Provider, and each other Authorised Credit Provider, the Standstill Cash Manager, each Agent, the Mezzanine Finance Parties and any Additional Secured Creditors.

**"Secured Liabilities"** means the Restricted Secured Liabilities and the Unrestricted Secured Liabilities.

**"Securities"** means all present and future debentures, obligations, certificates of deposit, notes, negotiable instruments and bearer and registered shares, securities, stock, bonds, warrants, coupons and all other securities and investments of any kind whatever, whether or not represented by a document (but excluding the Group Shares).

**"Securities Act"** means the United States Securities Act of 1933, as amended.

**"Security Documents"** means:

- (a) the Security Agreement;
- (b) means the security trust and intercreditor deed, together with any deed supplemental to the STID and referred to in the STID as a **"Subsequent Deed"**;
- (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 Trustee"** means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

**"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 Agreement"** means the £127,200,000 senior mezzanine facility agreement dated on or about the date of the Common Terms Agreement between the Issuer, RBS, RBEF Limited, Royal Bank Investments Limited and the Security Trustee.

**"Senior Mezzanine Facility Providers"** means the 'Lenders' (as defined in the Senior Mezzanine Facility Agreement).

**"Senior Mezzanine Finance Parties"** means RBS, RBEF Limited and the Lenders (as defined in the Senior Mezzanine Facility Agreement).

**"Shareholder Tax Deed of Covenant"** means the deed of covenant entered into on or about the date of the Common Terms Agreement by the Security Trustee, the Royal Bank of Scotland Group plc, MBIA and Veolia Environnement S.A..

**"Shortfall"** means the excess of any amounts paid by the Principal Paying Agent to the Bondholders, Receiptholders or holders of interest coupons relating to certain Bonds or to any other paying agent at a time when it has not received payment in full in respect of the relevant Bonds from the Issuer.

**"Standstill Cash Manager"** means The Royal Bank of Scotland plc during a Standstill Period in its capacity as Standstill Cash Manager under the Common Terms Agreement, or any successor Standstill Cash Manager appointed in accordance with the Common Terms Agreement.

**"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.

**"Sub-Class"** means, with respect to a Class of Bonds, those Bonds which are identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Price, such Sub-Class comprising one or more Tranches of Bonds.

**"Subordinated Debt"** means financial indebtedness of a specified nature 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 CTA and the STID or the SWS Preference Share Deed, including, for the avoidance of doubt, the Mezzanine Debt.

**"SW Tax Deed of Covenant"** means the deed of covenant to be entered into on or about the date of the Common Terms Agreement by, among others, the Security Trustee, SWC, SWI, MBIA and the Obligors.

**"SWC"** means Southern Water Capital Limited.

**"SWI"** means Southern Water Investments Limited.

**"SWL"** means Southern Water Limited.

**"SWSF"** means Southern Water Services (Finance) Limited.

**"SWSG"** means Southern Water Service Group Limited.

**"SWSGH"** means SWS Group Holdings Limited.

**"SWSH"** means SWS Holdings Limited.

**"SWS Preference Share Deed"** means the deed entered into on the Initial Issue Date by, among others, the holders of the SWS Preference Shares and the Security Trustee.

**"SWS Preference Shares"** means the Class A1 Preference Shares, the Class A2 Preference Shares and the Class B Preference Shares.

**"SWSG Security Agreement"** means the security agreement entered into by the Security Trustee, SWSG and SWS on or about the date of the Common Terms Agreement.

**"Tax Deeds of Covenant"** means the Shareholder Tax Deed of Covenant and the SW Tax Deed of Covenant.

**"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.

**"Tranche"** means all Bonds which are in respect of such Bonds identical in all respects (save for the issue date, interest commencement date and issue price).

**"Transaction Documents"** means any Finance Document, certain other agreements regarded as material in accordance with criteria specified in the Common Terms Agreement and any other document designated as such by the Security Trustee and the Issuer.

**"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 option 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.

**"Unrestricted Chargors"** means each of SWSH and SWSGH and any other entity which accedes to the Security Agreement pursuant to Clause 22.3 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 Chargor to any Secured Creditor under each Finance Document to which such Chargor is a party, except for certain obligations which would result in a contravention of section 151 of the Companies Act 1985.

**"Wrapped Debt"** or **"Wrapped Bond"** means any indebtedness or bond (respectively) that has the benefit of a guarantee from a Financial Guarantor.

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The Directors  
Southern Water Services Group Limited  
Southern House  
Yeoman Road  
Worthing  
West Sussex BN13 3NX

21 July 2003

Dear Sirs

**Auditors' report to the directors Southern Water Services Group Limited pursuant to Section 156(4) of the Companies Act 1985**

We have examined the attached statutory declaration of the directors of Southern Water Services Group Limited ("the Company") dated 21 July 2003 in connection with the proposal that the Company's subsidiary undertaking, Southern Water Services Limited, should give financial assistance for the purpose of discharging liabilities incurred in acquiring 5,000,000 ordinary shares of £1 each of the share capital of the Company. This report including the opinion, has been prepared for and only for the Company and the Company's directors in accordance with Section 156 of the Companies Act 1985 and for no other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent in writing.

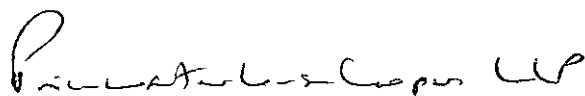
**Basis of opinion**

We have enquired into the state of the Company's affairs in order to review the bases for the statutory declaration.

**Opinion**

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in Section 156(2) of the Companies Act 1985 is unreasonable in all the circumstances.

Yours faithfully



PricewaterhouseCoopers LLP  
*Chartered Accountants and Registered Auditors*