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FOR IMMEDIATE RELEASE

25 NOVEMBER 2016

**RESPONSE TO ANCALA OFFER  
DOCUMENT AND INTRODUCTION OF LOAN NOTE ALTERNATIVE**

**REVISED SEVERN TRENT ACQUISITION**

of

**DEE VALLEY GROUP PLC**

by

**SEVERN TRENT WATER LIMITED**

**1. RESPONSE TO ANCALA OFFER DOCUMENT**

Severn Trent notes that Ancala Fornia Limited ("**Ancala**") has posted the offer document containing the terms and conditions of its offer to Dee Valley shareholders (the "**Ancala Proposal**").

Severn Trent has announced an offer for Dee Valley of 1,825 pence in cash for each Dee Valley Ordinary Voting Share and 1,713 pence in cash for each Dee Valley Ordinary Non-Voting Share.

Severn Trent's offer is 119 pence (7 per cent.) higher than Ancala's offer of 1,706 pence for each Dee Valley Ordinary Voting Share and 111 pence (6.9 per cent.) higher than Ancala's offer of 1,602 pence for each Dee Valley Ordinary Non-Voting Share.

Severn Trent will be a supportive long term owner of Dee Valley as the local water business for its area.

Severn Trent will bring its expertise and considerable financial strength to support the business, its customers, employees and pensioners. Severn Trent's investment grade debt rating will provide a solid foundation for the business.

The Board of Dee Valley has announced its intention to recommend unanimously that:

- all Dee Valley Ordinary Voting Shareholders vote in favour of the Severn Trent's Revised Scheme; and
- all holders of Dee Valley Ordinary Non-Voting Shares accept the Revised Severn Trent Contractual Offer for their Shares.

Severn Trent also notes that the Board of Dee Valley intends to work with Severn Trent in implementing as soon as possible the terms of the Revised Scheme.

**If they would like to receive the significantly higher consideration offered by Severn Trent, Dee Valley Ordinary Shareholders should take no action in respect of the Ancala Proposal, nor should they sell their shares to Ancala.**

The conditions relating to shareholder approval of Severn Trent's Revised Scheme will be satisfied if the requisite majorities of those Dee Valley Ordinary Voting Shareholders present and voting at the relevant meetings vote in favour, being 75 per. or more (by value of Dee Valley Ordinary Voting Shares held) and a majority in number at the court meeting, and 75

per cent. or more (by number of Dee Valley Ordinary Voting Shares held) at the general meeting.

## 2. INTRODUCTION OF LOAN NOTE ALTERNATIVE

Severn Trent announces that the Revised Acquisition is revised to include a loan note alternative to the cash consideration available under its Revised Acquisition (the "**Loan Note Alternative**"). Severn Trent's intention in introducing the Loan Note Alternative is that UK tax resident shareholders who would otherwise trigger for UK tax purposes a capital gain if they accepted cash pursuant to the Revised Acquisition will instead be able to elect to receive loan notes ("**Loan Notes**"), in which case a capital gain would not be realised for tax purposes on the disposal of their Dee Valley Ordinary Shares.

The Loan Notes will bear interest (from the date of issue to the relevant holder of Loan Notes) payable six months in arrears at the rate of 0.25%. No application is intended to be made for the Loan Notes to be issued or dealt in on any stock exchange. A holder of the Loan Notes will have the right (subject to certain restrictions) to redeem them for cash at par on 1 July 2017 or on any subsequent interest payment dates. The Loan Notes may be redeemed by Severn Trent on or after 1 July 2017, if more than 50 per cent. of the nominal amount of the Loan Notes outstanding has been redeemed. Unless previously redeemed or repurchased, the Loan Notes will be repaid at par on 1 January 2020. The Loan Notes shall be non-transferable. The Loan Note Alternative shall be conditional upon the Revised Scheme.

## 3. OTHER

Save for the introduction of the Loan Note Alternative as set out in paragraph 2 above, the terms and conditions of the Revised Acquisition remain the same as those set out in the announcement by Severn Trent in respect of the Revised Acquisition on 23 November 2016.

Further details of the Revised Scheme, the Revised Severn Trent Contractual Offer and the Loan Note Alternative including their full terms and conditions and an indicative timetable, will be contained in the scheme circular which, will be sent to Dee Valley Ordinary Shareholders and will set out, amongst other things, (i) the Revised Scheme; and (ii) the terms and conditions of the Revised Severn Trent Contractual Offer, which will also include the notices of the Court Meeting and the General Meeting and specify the necessary actions to be taken by Dee Valley Ordinary Shareholders.

Copies of the documents listed in paragraph 15 of Part II of the Original Announcement and this announcement are available at [www.severntrent.com](http://www.severntrent.com) and will continue to remain available there until the end of the offer period.

Unless otherwise stated, capitalised terms used in this announcement have the same meaning as those defined in the announcement by Severn Trent in respect of the Revised Acquisition on 23 November 2016.

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### **Further information**

This announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Revised Acquisition or otherwise, nor shall there be any sale, issuance or transfer of securities of Dee Valley in any jurisdiction in contravention of applicable law. This announcement does not constitute a prospectus or a prospectus equivalent document.

Any vote in respect of the Revised Acquisition should only be made on the basis of the information contained in the scheme circular relating to the Revised Scheme, which will contain the full terms and conditions of the Revised Acquisition and the Revised Scheme (including details of how to vote) and the Revised Severn Trent Contractual Offer (including how to accept the Revised Severn Trent Contractual Offer). Dee Valley Ordinary Shareholders are advised to read the formal documentation in relation to the Revised Acquisition carefully once it has been dispatched.

Please be aware that addresses, electronic addresses and certain other information provided by Dee Valley Ordinary Shareholders, persons with information rights and other relevant persons in connection with the receipt of communications from Dee Valley may be provided to Severn Trent during the offer period as required under Section 4 of Appendix 4 of the Code.

N. M. Rothschild & Sons Limited, which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for Severn Trent and no one else in connection with the Revised Acquisition and will not be responsible to anyone other than Severn Trent for providing the protections afforded to its clients or for providing advice in relation to the Revised Acquisition or any other matters referred to in this announcement.

Barclays Bank PLC, acting through its Investment Bank, which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the FCA and the Prudential Regulation Authority, is acting exclusively for Severn Trent and no one else in connection with the matters referred to in this announcement and will not be responsible to anyone other than Severn Trent for providing the protections afforded to clients of Barclays nor for providing advice in relation to the matters referred to in this announcement.

Morgan Stanley & Co. International plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively for Severn Trent and no-one else in connection with the Revised Acquisition. In connection with such matters, Morgan Stanley & Co. International plc, its affiliates and their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to any other person for providing the protections afforded to their clients or for providing advice in relation to the Revised Acquisition, the contents of this announcement or any other matter referred to herein.

### **Overseas jurisdictions**

The release, publication or distribution of this announcement in or into, jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this announcement comes who are not resident in the United Kingdom should inform themselves about, and observe, any applicable restrictions. Dee Valley Ordinary Shareholders who are in any doubt regarding such matters should consult an appropriate independent adviser in the relevant jurisdiction without delay. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Revised Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person.

The Revised Severn Trent Contractual Offer is not being made, directly or indirectly, in or into, or by the use of the mails or any means or instrumentality (including, without limitation telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States or any other Restricted Jurisdictions, and the Revised Severn Trent Contractual Offer should not be accepted by any such use, means, instrumentality or facility or from such jurisdictions. Copies of this document and any related offering documents are not being, and may not be, mailed or otherwise distributed in, into or from, whether by use of the mails, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce, or any facility of a national securities exchange of, the United States or any other Restricted Jurisdictions. Persons receiving such documents (including, without limitation, custodians, nominees and trustees) must not distribute or send them into or from such jurisdictions or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with this Revised Severn Trent Contractual Offer and doing so will render invalid any relevant purported acceptance of the Revised Severn Trent Contractual Offer.

This announcement has been prepared for the purposes of complying with English law and the Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

#### **Additional information for US investors in Dee Valley**

These materials are not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia). These materials do not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States.

Dee Valley and Severn Trent Water are each organised under the laws of England. All of the officers and directors of Dee Valley and Severn Trent Water are residents of countries other than the United States. It may not be possible to sue Dee Valley, Severn Trent Water or their respective officers or directors in a non-US court for violations of US securities laws. It may be difficult to compel Dee Valley, Severn Trent Water and their respective affiliates to subject themselves to the jurisdiction and judgment of a US court.

#### *The Revised Scheme*

Dee Valley Ordinary Shareholders in the United States should note that the Revised Acquisition relates to the shares of an English company and, in respect of the Dee Valley Ordinary Voting Shares, is proposed to be made by means of a scheme of arrangement provided for under, and governed by, English law. Neither the proxy solicitation nor the tender offer rules under the US Securities Exchange Act of 1934, as amended, will apply to the Revised Scheme. Moreover the Revised Scheme will be subject to the disclosure requirements, rules and practices applicable in the UK to schemes of arrangement, which differ from the disclosure requirements of the US proxy solicitation rules and tender offer rules. Financial information included in this announcement and the scheme circular has been or will be prepared in accordance with, where relevant International Financial Reporting Standards as adopted by the European Union and/or accounting standards applicable in the UK and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

#### *The Revised Severn Trent Contractual Offer*

The Revised Severn Trent Contractual Offer in respect of Dee Valley Ordinary Non-Voting Shares relates to the shares of an English company and will be governed by English law on the implementation of such an offer. The Revised Severn Trent Contractual Offer is not intended to be made pursuant to the provisions of any other legal system. Shareholders should note that the Revised Severn Trent Contractual Offer is subject to English disclosure rules, which are different from those in the United States. The Revised Severn Trent Contractual Offer will not be made to any Dee Valley Ordinary Shareholders in Restricted Jurisdictions.

## **Note regarding Loan Notes**

The Loan Notes to be issued pursuant to the Revised Acquisition have not been and will not be registered under the US Securities Act of 1933, as amended, or under the relevant securities laws of any state or territory or other jurisdiction of the United States or the relevant securities laws of Japan and the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada. No prospectus in relation to the Loan Notes has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission. Accordingly, the Loan Notes are not being, and may not be, offered, sold, resold, delivered or distributed, directly or indirectly in or into the United States, Canada, Australia or Japan or any other jurisdiction if to do so would constitute a violation of relevant laws of, or require registration thereof in, such jurisdiction (except pursuant to an exemption, if available, from any applicable registration requirements or otherwise in compliance with all applicable laws). US shareholders of Dee Valley will only receive cash consideration in connection with the Revised Acquisition and may not elect to receive any Loan Notes.

## **Disclosure requirements**

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

**Forward-looking statements**

This announcement contains certain forward-looking statements, including statements regarding Severn Trent's and Dee Valley's plans, objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the water and wastewater industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document.

**Publication of this announcement**

A copy of this announcement will be available subject to certain restrictions relating to persons resident in Restricted Jurisdictions on [www.severntrent.com](http://www.severntrent.com).

The contents of Severn Trent's website are not incorporated into and do not form part of this announcement.