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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that

the offering be made by a licensed broker or dealer and HSBC Bank plc or The Royal Bank of Scotland plc (together, the “**Joint Lead Managers**”) or any affiliate of any of the above is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

These Listing Particulars have been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer or any of the Joint Lead Managers (nor any person who controls any of them respectively nor any director, officer, employee nor agent of any of them respectively nor affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Listing Particulars distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers. In relation to The Royal Bank of Scotland plc, the term “**affiliate**” shall not include (a) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Services Investments Limited (or directors, officers, employees or entities thereof) or (b) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Services Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiaries or subsidiary undertakings.

If you receive these Listing Particulars by email, you should not reply by email to this announcement, and you may not purchase any securities by doing so.

If you receive these Listing Particulars by email, your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

AFFINITY WATER FINANCE (2004) PLC

(incorporated in England and Wales with registered number 05139236)

**£50,000,000 5.875 per cent. Guaranteed Notes due 2026
to be consolidated and form a single series with the £200,000,000 5.875 per cent.**

Guaranteed Notes due 2026

financing

AFFINITY WATER LIMITED

(incorporated with limited liability in England and Wales with registered number 02546950)

unconditionally and irrevocably guaranteed by

**AFFINITY WATER HOLDINGS LIMITED, AFFINITY WATER LIMITED and
AFFINITY WATER PROGRAMME FINANCE LIMITED**

**Issue Price: 118.683 per cent. (plus interest accrued from, and including, 13 July 2014
to, but excluding, 16 July 2014)**

Affinity Water Finance (2004) PLC (formerly known as Affinity Water Finance (2004) Limited, prior to which it was known as Affinity Water Finance (2004) PLC, prior to which it was known as Veolia Water Central Finance PLC and prior to that, it was known as Three Valleys Water Finance PLC) (the “**Issuer**”), is issuing an aggregate principal amount of £50,000,000 5.875 per cent. Guaranteed Notes due 2026 (the “**Further Notes**”) to be consolidated and form a single series with the £200,000,000 5.875 per cent. Notes due 2026 (the “**Original Notes**”, and together with the Further Notes, the “**Notes**”).

The payment of all amounts owing in respect of the Further Notes will be unconditionally and irrevocably guaranteed by Affinity Water Holdings Limited (“**AWHL**”), Affinity Water Limited (“**AWL**”) and Affinity Water Programme Finance Limited (the “**Programme Issuer**”) as described herein. The Issuer, AWHL, AWL and the Programme Issuer are together referred to herein as the “**Obligors**”. As at the date of these Listing Particulars, AWHL has no significant assets other than the shares in its wholly-owned subsidiary, AWL.

Interest on the Further Notes is payable annually in arrear on 13 July in each year, commencing on 13 July 2015 (the “**First Interest Payment Date**”) as described under “*Terms and Conditions of the Notes – Interest*”. The issue price of the Further Notes is 118.683 per cent. of their principal amount (plus accrued interest from, and including, 13 July 2014 to, but excluding, 16 July 2014 (the “**Accrued Interest**”). Provided the Accrued Interest has actually been received by or for the account of the Issuer on or before the issue date of the Further Notes, holders of the Further Notes will receive, on the First Interest Payment Date an amount representing interest accrued from (and including) 13 July 2014 to (but excluding) 13 July 2015 as specified in “*Terms and Conditions of the Notes – Interest*”.

If any withholding or deduction for or on account of tax is applicable to the Notes, payments of interest on, principal of and premium (if any) on, the Notes, will be made subject to such withholding or deduction, without the Issuer or any of the Guarantors being obliged to pay any additional amounts as a consequence as described under “*Terms and Conditions of the Notes – Taxation*”.

The Notes mature on 13 July 2026 subject as provided in “*Terms and Conditions of the Notes – Payments*” but may be redeemed before then at the option of the Issuer in whole or in part in certain circumstances as set out in “*Terms and Conditions of the Notes – Redemption and Purchase*”. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom (see “*Terms and Conditions of the Notes – Redemption and Purchase*”).

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000, as

amended (“**FSMA**”) (the “**UK Listing Authority**” or “**UKLA**”) for the Further Notes to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Further Notes to be admitted to trading on the London Stock Exchange’s Professional Securities Market (the “**PSM**”). The PSM is not a regulated market under Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets and Financial Instruments. References in these Listing Particulars to Further Notes being “listed” (and all related references) shall mean that such Further Notes have been admitted to trading on the PSM. The Further Notes are expected on issue to be assigned a rating of “A- ” by Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies (“**Standard & Poor’s**”) and “A3” by Moody’s Investor’s Service Ltd (“**Moody’s**”). 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, as amended (the “**CRA Regulation**”). The credit ratings included or referred to in these Listing Particulars will be treated for the purposes of the CRA Regulation as having been issued by Moody’s and Standard & Poor’s. Each of Moody’s and Standard & Poor’s is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

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 the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to any of the Notes may adversely affect the market price of such Notes. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

The European Securities and Market Association (“**ESMA**”) is obliged to maintain on its website a list of credit rating agencies registered in accordance with the CRA Regulation. This list must be updated within 30 days of ESMA’s notification to the relevant credit rating agency of adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

The Further Notes will be represented initially by a temporary global note (the “**Temporary Global Note**”), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) on or about the Issue Date (as defined below).

The Temporary Global Note will be exchangeable for interests in a permanent global note (the “**Permanent Global Note**” and, together with the Temporary Global Note, the “**Global Notes**”), without interest coupons, on or after the date which is expected to be 26 August 2014 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive securities in bearer form as more fully described in Chapter 8 “*The Notes*” under “*Forms of the Notes*”.

See Chapter 4 “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Further Notes.

Joint Lead Managers

HSBC

The Royal Bank of Scotland

Listing Particulars dated 10 July 2014

IMPORTANT NOTICE

These Listing Particulars (the “**Listing Particulars**”) comprise listing particulars as required by the Listing Rules made under Section 74 of the Financial Services and Markets Act 2000 (the “**Listing Rules**”) by the UK Listing Authority for the purpose of giving information with regard to the Issuer and the other Obligors which, according to the particular nature of the Issuer and the Further Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Each of the Issuer and the other Obligors accepts responsibility for the information contained in these Listing Particulars. To the best of the knowledge and belief of the Issuer and each of the other Obligors (having taken all reasonable care to ensure that such is the case) the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

These Listing Particulars are being distributed only to, and are 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”). These Listing Particulars, or any of their contents, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which these Listing Particulars relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

These Listing Particulars have been prepared on the basis that any offer of the Further Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Further Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Further Notes which are the subject of the offering contemplated in these Listing Particulars may only do so in circumstances in which no obligation arises for the Issuer, the Guarantors or any of the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer, the Guarantors nor the Joint Lead Managers have authorised, nor do they authorise, the making of any offer of Further Notes in circumstances in which an obligation arises for the Issuer or the Joint Lead Managers to publish a prospectus for such offer.

Copies of the Listing Particulars will be available from Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ and from the specified office set out below of each of the Paying Agents (as applicable) and from 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 (the “**Regulatory News Service**”). The contents of this website, other than copies of those documents incorporated by reference into these Listing Particulars, are for information purposes only and do not form part of these Listing Particulars. See also Chapter 13 “*General Information*” for more details.

These Listing Particulars are to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see section “*Documents Incorporated by Reference*” below).

No person has been authorised to give any information or to make representations other than the information or the representations contained in these Listing Particulars in connection with the Issuer, any member of the Financing Group (as defined below) or the Affinity Group (as defined below) or the offering or sale of the Further Notes 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 Financing Group, the Affinity Group, the Joint Lead Managers, the Note Trustee or the Security Trustee. Neither the delivery of these Listing Particulars nor any offering or sale of Further Notes 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 Financing Group since the date hereof. Unless otherwise indicated herein, all information in these Listing Particulars is given as of the date of these Listing Particulars. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Joint Lead Managers to subscribe for, or purchase, any of the Further Notes.

Save for the Issuer and the other Obligors, no other party has separately verified the information contained herein (other than, in respect of the Hedging Counterparties, the information in Chapter 10 “*Description of the Hedging Counterparties*”). Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Joint Lead Manager, the Note Trustee, the Bond Trustee, the Security Trustee or any of the Hedging Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Finance Lessors or the members of the Affinity Group (other than the Issuer and the other Obligors) or any person affiliated with any of them (each as defined below and, together, the “**Other Parties**”) as to the accuracy or completeness of the information contained in these Listing Particulars or any other information supplied in connection with the Further Notes or their distribution (other than, in respect of the Hedging Counterparties, the information in Chapter 10 “*Description of the Hedging Counterparties*”). In relation to The Royal Bank of Scotland plc, the term “**affiliate**” shall not include (a) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Services Investments Limited (or any directors, officers, employees or entities thereof) or (b) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Services Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiaries or subsidiary undertakings. The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the other Obligors. Each person receiving these Listing Particulars acknowledges that such person has not relied on any Joint Lead Manager, the Note Trustee or the Security Trustee or any Other Party in connection with its investigation of the accuracy of such information or its investment decision (other than, in respect of the Hedging Counterparties, the information in Chapter 10 “*Description of the Hedging Counterparties*”).

None of the Issuer, the other Obligors, any member of the Financing Group or the Affinity Group, the Joint Lead Managers, the Note Trustee, the Security Trustee or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Further Notes (including (but not limited to) whether any transaction or transactions pursuant to which Further Notes are issued is or will be regarded as constituting a “securitisation” for the purpose of the EU Capital Requirements Regulation (EU) No. 575/2013 (the “**CRR**”) and the application of Article 409 of the CRR or Section 5 of Regulation (EU) No. 231/2013 to any such transaction) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Further Notes is relevant to any 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.

Prospective investors are referred to Chapter 4 “*Risk Factors*” of these Listing Particulars for further information.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Further Notes 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 issue of the Further Notes 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 Joint Lead Managers, the Note 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 Further Notes or to advise any investor in the Further Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into these Listing Particulars when deciding whether or not to purchase any Further Notes.

These Listing Particulars are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any member of the Financing Group, any member of the Affinity Group, any Joint Lead Manager, the Note Trustee, the Security Trustee or any of the Other Parties that any recipient of these Listing Particulars should purchase any of the Further Notes.

Each person contemplating making an investment in the Further Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the other Obligors, 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 Further Notes should consult independent professional advisers. Any prospective Noteholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.

THE FURTHER NOTES 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 FURTHER NOTES MAY INCLUDE BEARER FURTHER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE FURTHER NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER FURTHER NOTES, 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 FURTHER NOTES 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 FURTHER NOTES AND DISTRIBUTION OF THESE LISTING PARTICULARS SEE CHAPTER 12 “SUBSCRIPTION AND SALE”.

THE FURTHER NOTES 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 HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF FURTHER NOTES OR THE ACCURACY OR THE ADEQUACY OF THESE LISTING PARTICULARS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The distribution of these Listing Particulars and the offering, sale or delivery of the Further Notes in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars comes are required by the Issuer, the other Obligors and the Joint Lead Managers to inform themselves about and to

observe any such restrictions. For a description of certain restrictions on offers and sales of the Further Notes and on distribution of these Listing Particulars, see Chapter 12 "*Subscription and Sale*". These Listing Particulars do not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Further Notes 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", "Sterling" or "£" are to the lawful currency of the United Kingdom, all references to "\$", "U.S.\$", "U.S. dollars" and "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.

In connection with the issue and distribution of the Further Notes, The Royal Bank of Scotland plc or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Further Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no assurance that The Royal Bank of Scotland plc or any agent of it will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Further Notes and 60 days after the date of the allotment of the Further Notes. Any stabilisation action or over allotment shall be conducted by The Royal Bank of Scotland plc or any person acting for it in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

These Listing Particulars incorporate by reference, and should be read and construed in conjunction with, the following documents:

- (a) the audited annual unconsolidated financial statements of the Issuer (previously known as Veolia Water Central Finance PLC) for the years ended 31 March 2014 and 31 March 2013, each of which have been previously published and which have been filed with the UKLA;
- (b) the annual report (which includes the statutory audited annual unconsolidated financial statements) of AWL (previously known as Veolia Water Central Limited) for the years ended 31 March 2014 and 31 March 2013, each of which have been previously published and which have been filed with the UKLA;
- (c) the audited annual unconsolidated financial statements) of AWHL for the years ended 31 March 2014 and 31 March 2013, each of which have been previously published and which have been filed with the UKLA; and
- (d) the audited annual unconsolidated financial statements of the Programme Issuer for the years ended 31 March 2014 and 31 March 2013, each of which have been previously published and which have been filed with the UKLA,

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 these Listing Particulars 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 these Listing Particulars. Any information or documents which are themselves incorporated by reference in the documents incorporated by reference in these Listing Particulars shall not form part of these Listing Particulars. Where only certain parts of a document are incorporated by reference in these Listing Particulars, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in these Listing Particulars.

AWL will provide, without charge, to each person to whom a copy of these Listing Particulars 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 AWL at its offices set out at the end of these Listing Particulars.

Copies of documents deemed to be incorporated by reference in these Listing Particulars may be viewed free of charge 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>. The contents of this website, other than copies of those documents deemed to be incorporated by reference into these Listing Particulars, are for information purposes only and do not form part of these Listing Particulars.

The Issuer will provide, free of charge, upon oral or written request, a copy of these Listing Particulars (or any document incorporated by reference in these Listing Particulars) at the specified offices of the Principal Paying Agent.

The hyperlinks included in these Listing Particulars, or included in any documents incorporated by reference into the Listing Particulars, and the websites and their content are not incorporated into, and do not form part of, these Listing Particulars.

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CHAPTER 1

THE PARTIES

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| Issuer | Affinity Water Finance (2004) PLC (formerly known as Affinity Water Finance (2004) Limited, prior to which it was known as Affinity Water Finance (2004) PLC, prior to which it was known as Veolia Water Central Finance PLC and prior to that, it was known as Three Valleys Water Finance PLC) is a special purpose vehicle incorporated in England and Wales with limited liability with company number 05139236. The Issuer was established as a special purpose vehicle. The Issuer is a wholly-owned subsidiary of AWL. The Issuer is referred to as the “Existing Issuer” in the Financing Agreements. |
| AWL | Affinity Water Limited, a company incorporated with limited liability in England and Wales (registered number 02546950), 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) (as amended/varied from time to time and as appended to the variation instrument dated 20 July 2012 and effective as of 23:59 on 27 July 2012, as amended from time to time) under which the Secretary of State for the Environment appointed AWL as a water undertaker under the WIA for the areas described in the Instrument of Appointment (the “ Instrument of Appointment ”). AWL is a wholly-owned subsidiary of AWHL. |
| AWHL | Affinity Water Holdings Limited, a company incorporated with limited liability in England and Wales (registered number 08350099). AWHL is a wholly-owned subsidiary of Parent. |
| The Programme Issuer | Affinity Water Programme Finance Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability with registered number 274647, is a special purpose vehicle established for raising funds to support the long-term debt financing requirements of AWL, including issuing the Bonds under the Programme. The Programme Issuer is a wholly-owned subsidiary of AWL. |
| Parent | Affinity Water Capital Funds Limited, a private company incorporated with limited liability in England and Wales (registered number 02630142). |
| Guarantors/Obligors | Pursuant to the terms of the Security Agreement (i) AWHL guarantees the obligations of AWL, the Programme Issuer and the Issuer under each Finance Document in favour of the Security Trustee and (ii) AWL, the Programme Issuer and the Issuer, each guarantee the obligations of each other (but not those of AWHL) under each Finance Document in favour of the Security Trustee. AWHL, AWL, the Programme Issuer and the Issuer are collectively referred to herein as the “ Guarantors ” |

or “**Obligors**” and each a “**Guarantor**” or “**Obligor**”.

Financing Group

The Financing Group comprises of AWHL, AWL, the Programme Issuer, the Issuer, the Existing Dormant Subsidiaries and any Permitted Subsidiaries.

AWL will be entitled to incorporate additional issuers (each a “**Permitted Additional Issuer Subsidiary**”) provided that they meet the requirements applicable to the Permitted Subsidiaries. The CTA will provide that each Permitted Additional Issuer Subsidiary will be treated for the purposes of all restrictions and permissions as if it were the Programme Issuer.

Existing Dormant Subsidiaries

Three Valleys Water Limited, Tendring Hundred Water Services Limited, Folkestone and Dover Water Services Limited and White Cliffs Water Limited (but only for as long as they remain dormant).

Affinity Group

Affinity Water Acquisitions (Investments) Limited and its Subsidiaries from time to time.

Joint Lead Managers

HSBC Bank plc and The Royal Bank of Scotland plc will act as joint lead managers (the “**Joint Lead Managers**”) with respect to the Further Notes issued by the Issuer on the Issue Date.

Existing Hedging Counterparties

HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc are each an “**Existing Hedging Counterparty**”. The Existing Hedging Counterparties are under no obligation to enter into any Treasury Transactions after the Closing Date.

As at the date hereof, there are no Hedging Transactions outstanding.

Hedging Counterparties

The Existing Hedging Counterparties and any counterparty to a Hedging Agreement which will become a party to the STID in accordance with the STID at any time thereafter, and “**Hedging Counterparty**” means any of such parties.

Bond Trustee

Deutsche Trustee Company Limited acts as trustee (the “**Bond Trustee**”) for and on behalf of the holders (the “**Bondholders**”) of the Bonds.

Security Trustee

Deutsche Trustee Company Limited acts as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the “**Security Trustee**”).

Note Trustee

Deutsche Trustee Company Limited acts as trustee (the “**Note Trustee**”) for and on behalf of the holders (the “**Noteholders**”) of the Notes.

Secured Creditors

The Secured Creditors will comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor.

Existing Authorised Credit Providers

The Capital Expenditure Facility Providers and the Working Capital Facility Providers (the “**Existing Authorised Credit Providers**”).

| | |
|--|---|
| Liquidity Facility Providers | The DSR Liquidity Facility Providers and the O&M Reserve Facility Providers. |
| Senior Facilities Agreement Providers | Certain financial institutions assembled from time to time by the Affinity Group (each a “ Senior Facilities Agreement Provider ” and together, the “ Senior Facilities Agreement Providers ”). |
| Senior Facilities Arrangers | HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc. |
| Senior Facilities Agent | The Royal Bank of Scotland plc or any other entity appointed as Facility Agent under the Senior Facilities Agreement. |
| Finance Lessors | Any financial lessor which enters into Finance Leases with AWL after the Closing Date (together the “ Finance Lessors ”). |
| Paying Agents | Deutsche Bank AG, London Branch acts as principal paying agent (replacing Citibank N.A. in its role as principal paying agent from (and including) 7 July 2014) (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 Notes. |
| Account Bank | Barclays Bank PLC, acting through its London office and any person for the time being acting as Account Bank (the “ Account Bank ”). |
| Cash Manager | AWL (the “ Cash Manager ”), or during a Standstill Period, Barclays Bank PLC (the “ Standstill Cash Manager ”). |

CHAPTER 2 OVERVIEW OF THE OFFERING

The following summary contains basic information about the Further Notes and the Notes (where applicable) and does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of these Listing Particulars and the Terms and Conditions of the Notes (the “**Conditions**”).

| | |
|--|---|
| The Offer | £50,000,000 5.875 per cent. Guaranteed Notes due 2026 to be consolidated and form a single series with the £200,000,000 5.875 per cent. Guaranteed Notes due 2026 |
| Issue Price of the Further Notes | 118.683 per cent. of the principal amount of the Further Notes plus the Accrued Interest |
| Issue Date of the Further Notes | 16 July 2014 |
| Maturity Date | 13 July 2026 |
| Interest | <p>The Further Notes bear interest from, and including, the Issue Date at the rate of 5.875 per cent. per annum payable annually in arrear on 13 July in each year, subject to Condition 6 (<i>Payments</i>). The first Interest Payment Date in respect of the Further Notes will be on or about 13 July 2015.</p> <p>Provided the Accrued Interest has been received by or for the account of the Issuer on or before the Issue Date of the Further Notes, holders of the Further Notes will receive, on the Interest Payment Date falling on or about 13 July 2015, an amount representing interest accrued from (and including) 13 July 2014 to (but excluding) 13 July 2015 as specified in Condition 4 (<i>Interest</i>).</p> |
| Form of the Further Notes | <p>The Further Notes will initially be represented by the Temporary Global Note, without interest coupons, which will be deposited with a common depository for Euroclear and Clearstream. The Temporary Global Note will be exchangeable for interests in the Permanent Global Note on or after the date which is expected to be 26 August 2014, upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form in denominations of £1,000, £10,000 and £100,000 each, with interest coupons attached, in the limited circumstances set out in the Permanent Global Note.</p> |
| Scheduled Redemption | <p>Unless previously redeemed in accordance with the Conditions, the Notes will be redeemed by the Issuer at their principal amount on 13 July 2026 subject to Condition 6 (<i>Payments</i>).</p> |
| Optional Redemption by Issuer for Taxation or Other Reasons | <p>In the event of the Issuer becoming obliged to make any deduction or withholding for or on account of any taxes, duties, assessments imposed by the United Kingdom from payments in respect of the Notes (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may (but is not obliged to) (a) use its</p> |

reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in Condition 5(b) (*Redemption for Taxation Reasons*)) and, failing this, (b) redeem (subject to certain conditions as set out in Condition 5(b) (*Redemption for Taxation Reasons*)) all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding together with accrued but unpaid interest.

In the event of AWL electing to prepay all or part of an advance under the Issuer/AWL Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of the Notes or the proportion of the Notes which the proposed prepayment amount bears to the amount of the relevant advance under the Issuer/AWL Loan Agreement (subject to certain conditions as set out in Condition 5(c) (*Redemption on Prepayment of an Existing Issuer/AWL Loan Agreement*)).

The Issuer may, upon giving not more than 60 nor less than 30 days' notice to, amongst others, the Note Trustee, the Noteholders and the Secured Creditors opt to redeem the Notes in whole or in part at the higher of par and a Redemption Price calculated in accordance with Condition 5(d) (*Redemption at the option of the Issuer*) together with interest accrued.

Taxation

Payments in respect of the Notes 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 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 in respect of any withholdings or deductions.

Status of the Further Notes

The Original Notes do, and the Further Notes will, constitute secured obligations of the Issuer and will rank *pari passu* without preference or priority in point of security amongst themselves. The Further Notes will be backed by the same assets as the Original Notes. The Original Notes do and the Further Notes will constitute Class A Debt and all claims in respect of the Notes will rank in priority to payments of interest and principal due on Class B Debt.

The Notes represent the right of the holders of such Notes to receive interest and principal payments from the Issuer in accordance with the Conditions and the Trust Deed.

Further Issuances

The Issuer may, from time to time and without consent of Noteholders or Couponholders, create and issue further notes on the same terms as the existing Notes (except for first

payment of interest). Such further notes may be consolidated and form a single series with such existing Notes.

Security Code

Temporary Global Note

ISIN: XS1084959953

Common Code:108495995

Permanent Global Note

ISIN: XS0195751523

Common Code: 019575152

Listing

Application has been made to admit the Further Notes to the Official List and to admit them to trading on the PSM. The PSM is not a regulated market under the Market in Financial Instruments Directive.

Ratings

The Further Notes are expected to be rated A- by Standard & Poor's and A3 by Moody's upon issue. Each of Standard & Poor's and Moody's is established in the EU and registered under the CRA Regulation.

The ratings assigned to the Further Notes by the Rating Agencies reflect only the views of the Rating Agencies.

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 AWL from time to time.

ESMA is obliged to maintain on its website a list of credit rating agencies registered in accordance with the CRA Regulation. This list must be updated within 30 days of ESMA's notification to the relevant credit rating agency of adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

Governing Law

The Further Notes will be governed by, and construed in accordance with, English law.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Further Notes in the EEA, the United States and the United Kingdom (see Chapter 12 "*Subscription and Sale*").

Covenants

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, among other things, the Notes are set out in the common terms agreement dated the Closing Date and as amended, supplemented or restated from time to time (the "**CTA**") (see Chapter 7 "*Overview of the Financing Agreements – Common Terms Agreement*").

Guarantee and Security

The Notes are (in respect of the Original Notes) and will be (in respect of the Further Notes), unconditionally and irrevocably guaranteed and secured by each of AWL, AWHL and the Programme Issuer, pursuant to a security agreement (the "**Security Agreement**") entered into by each Obligor in favour

of the Security Trustee over the entire property, assets, rights and undertaking (subject to certain specified exceptions) of each such Obligor (the “**Security**”), in the case of AWL to the extent permitted by the WIA and the Instrument of Appointment. Each such guarantee constitutes (in the case of the Original Notes) or will constitute (in the case of the Further Notes) 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 and subject to the terms of the STID (as defined below) (see Chapter 7 “*Overview of the Financing Agreements – Security Agreement*”).

Intercreditor Arrangements

The Secured Creditors and each Obligor are each party to the security trust and intercreditor deed dated the Closing Date (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, Enhanced Rights Matters 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 “*Overview of the Financing Agreements – Security Trust and Intercreditor Deed*”).

Authorised Credit Facilities

Subject to certain conditions being met, the Programme Issuer, the Issuer and AWL will be permitted to incur certain indebtedness under authorised credit facilities (each an “**Authorised Credit Facility**” with an Authorised Credit Provider.

These Authorised Credit Facilities may comprise loan, hedging, finance leases, liquidity facilities and other facilities (including letter of credit facilities) subject to the terms of the CTA and the STID and subject to certain types of facilities only being available to certain Obligors (for example, finance leases are limited to AWL; the Programme Issuer is only permitted to issue Bonds, enter into Programme Issuer/AWL Loan Agreements, DSR Liquidity Facilities and Hedging Agreements; and the Issuer is only permitted to issue notes, enter into the Issuer/AWL Loan Agreement, the Hedging Transactions and Liquidity Facilities). Each Authorised Credit Provider will be party to the CTA and the STID and may have voting rights thereunder. The Hedging Counterparties and the Existing Authorised Credit Providers constitute Authorised Credit Providers (see Chapter 7 “*Overview of the Financing Agreements*”).

DSR Liquidity Facilities

AWL has agreed to maintain that (in aggregate) (i) committed DSR Liquidity Facilities in respect of Class A Debt and Class B

Debt; and (ii) all amounts standing to the credit of the respective Debt Service Reserve Accounts (including the value of any Authorised Investments funded from amounts standing to the credit of the relevant Debt Service Reserve Accounts) are at least equal to the Class A Required Balance or the Class B Required Balance, as the case may be.

Pursuant to the terms of each DSR Liquidity Facility Agreement entered into from time to time, the DSR Liquidity Facility Providers make available to each of AWL, the Programme Issuer and the Issuer a 364-day revolving credit facility (renewable in accordance with the terms of the DSR Liquidity Facility Agreement) to enable drawings to be made by AWL, the Programme Issuer or the Issuer, as the case may be, to fund any Debt Service Payments arising as a result of a Class A Debt Liquidity Shortfall and/or (subject to funds being available to cover any Class A Debt Liquidity Shortfall) Class B Debt Liquidity Shortfall, including for the repayment of outstanding drawings (other than the Standby Drawings).

Subject to the terms of the STID and the CTA, the initial DSR Liquidity Facility Agreement and any further DSR Liquidity Facilities entered into will be on such commercial terms as AWL, the Programme Issuer or the Issuer, as the case may be, will agree or may agree (as applicable) with the relevant liquidity facility provider in terms of the ultimate tenor and pricing subject always to there being no downgrade or the placing on credit watch (negative) (or equivalent) of the then current ratings ascribed to any Bonds or the Notes as a result of entry into any new DSR Liquidity Facility.

O&M Reserve Facilities

AWL has agreed to maintain at all times an O&M Reserve Facility to be provided by the O&M Reserve Facility Providers available for drawing which, when aggregated with amounts standing to the credit of any O&M Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts of AWL), amounting to not less than the O&M Reserve Required Amount.

The initial O&M Reserve Facility has been and each O&M Reserve Facility will be entered into upon the terms similar to those of the DSR Liquidity Facilities (the “**DSR Liquidity Facilities**”) (see above and Chapter 7 “*Overview of the Financing Agreements – Liquidity Facilities – General*”).

Senior Facilities Agreement

Rift Acquisitions Limited (subsequently renamed Affinity Water Acquisitions Limited (“**AWAL**”)) as original borrower and original guarantor and HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc as mandated lead arrangers, entered into a senior facility agreement on 22 June

2012, as amended and restated on the Closing Date and as further amended, restated and supplemented from time to time.

Capital Expenditure Facility

£70 million revolving capital expenditure credit facility provided to AWL pursuant to the Senior Facilities Agreement (the “**Capital Expenditure Facility**”).

Working Capital Facility

£30 million revolving working capital credit facility provided to AWL pursuant to the Senior Facilities Agreement (the “**Working Capital Facility**”).

Investor Information

AWL is required to produce an investors’ report (the “**Investor Report**”) semi-annually to be delivered within 120 days from 31 March or 90 days from 30 September of each year. Such Investor Report will include, among other things: (i) a general overview of the AWL business in respect of the six month period ending on the immediately preceding Calculation Date; (ii) the calculations of Class A ICR, the Class A Adjusted ICR, the Class A Average Adjusted ICR, the Senior Adjusted ICR and the Senior Average Adjusted ICR for each Test Period (historic and projected (where possible)); (iii) the Class A RAR and Senior RAR for each Test Period (historic and projected); and (iv) reasonable detail of the computations of these financial ratios.

Each such Investor Report will be made available by AWL and the Issuer on AWL’s website: <https://www.affinitywater.co.uk>.

See further Chapter 6, “*Regulatory Developments - PR14 Ofwat financial model and Financial Ratios*” in respect of reporting for the AMP6 Period.

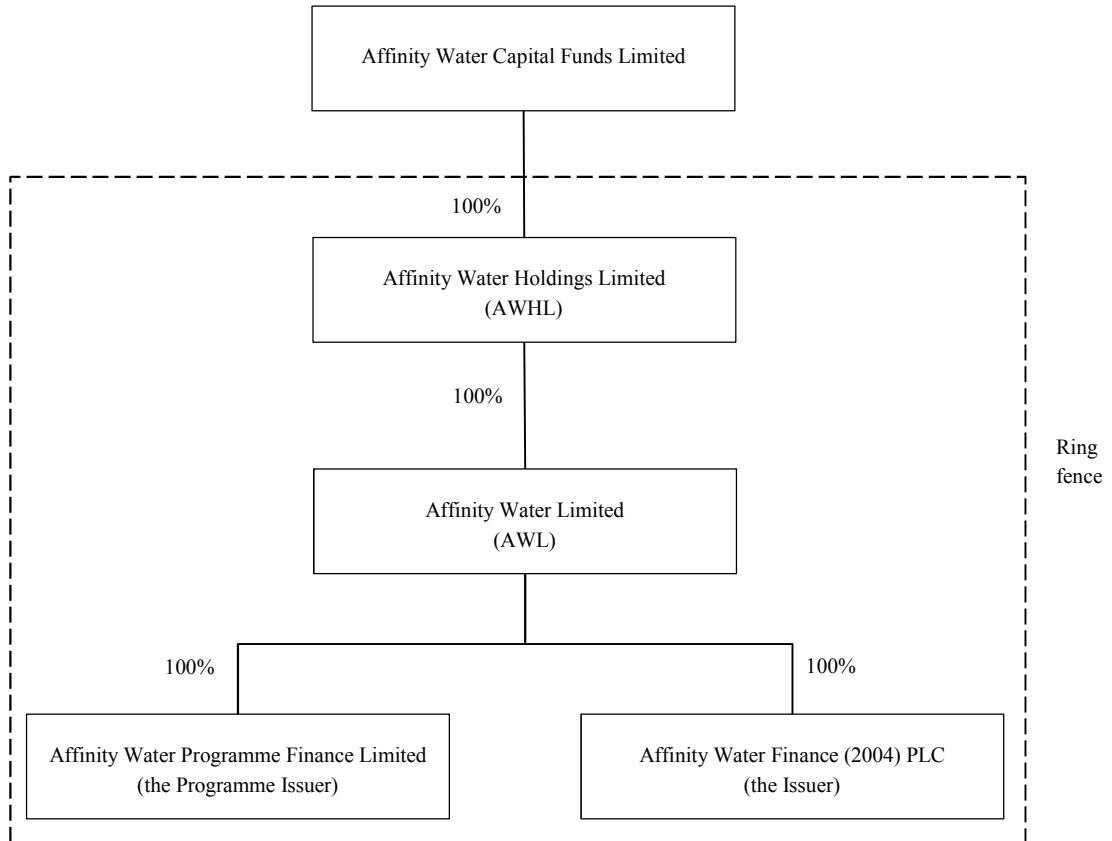
Private Placement

AWL may from time to time offer private placement notes in the United States on a standalone basis. If issued, such private placement notes will rank *pari passu* with and be treated for all purposes in the same manner as the Class A Debt or Class B Debt, as the case may be, save that they may have the benefit of additional representations and undertakings (in accordance with the CTA and the STID, subject to such representations and undertakings being also extended for the benefit of all other Secured Creditors).

CHAPTER 3 OVERVIEW OF THE FINANCIAL STRUCTURE

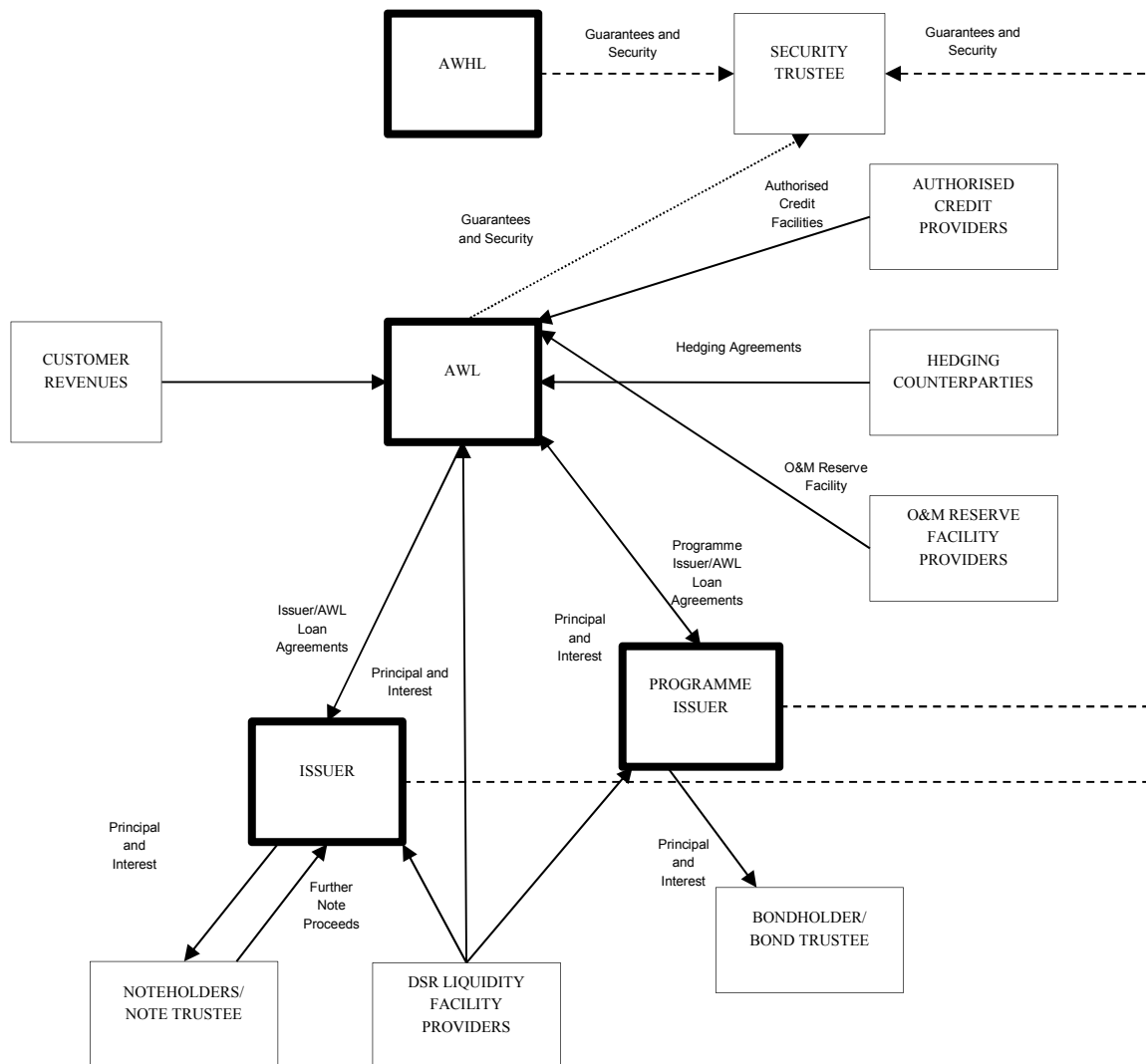
Simplified Ownership Structure

As at the date of these Listing Particulars, the simplified ownership structure is as follows:



Financing Structure

As at the date hereof, the Financing Structure is as follows:



- Prior to the Closing Date, the Issuer had issued the Original Notes which, upon issue, were unsecured obligations of the Issuer guaranteed by AWL. On or around the Closing Date, the terms and conditions of the Original Notes were amended to make them subject to the terms of the CTA and STID as Class A Debt and, therefore, make them a part of the financing arrangement of the Financing Group.
- The initial Issuer/AWL Loan Agreement documented the terms of the advance that had been made by the Issuer to AWL prior to the Closing Date in respect of the proceeds of the Original Notes issued. The Issuer will on-lend such proceeds of the Further Notes to AWL pursuant to another Issuer/AWL Loan Agreement. The Issuer/AWL Loan Agreement is intended to ensure that the Issuer has sufficient funds, on each Payment Date in respect of the Further Notes to make payments due thereunder and, as such, it will provide for payments to become due from AWL to the Issuer on dates and in amounts that match the obligations of the Issuer in respect of the Further Notes issued by the Issuer plus a profit margin (see Chapter 7 “*Overview of the Financing Agreements – Intercompany Loan Arrangements*” for more detail). As such, the Issuer/AWL Loan Agreement demonstrates a source of funds capable of servicing any payments due and payable on the Notes.

- The Programme Issuer may issue Class A Bonds or Class B Bonds under the Programme.
- AWL may borrow money from Authorised Credit Providers under Authorised Credit Facilities to repay or refinance the Financing Group's Financial Indebtedness and for general corporate purposes.
- The Programme Issuer will on-lend the proceeds of each Series of Bonds issued from time to time to AWL pursuant to a Programme Issuer/AWL Loan Agreement.
- The Programme Issuer, the Issuer and AWL may also borrow money from DSR Liquidity Facility Providers under the initial DSR Liquidity Facility or any further DSR Liquidity Facilities to service certain shortfalls in meeting payments in respect of the Financing Group's indebtedness.
- AWL may additionally borrow money from O&M Reserve Facility Providers under the initial O&M Reserve Facility or any further O&M Reserve Facilities for funding AWL's operating and maintenance expenditure and from Authorised Credit Providers under Authorised Credit Facilities for funding the Working Capital and Capital Expenditure requirements of AWL.
- The initial Class A Bonds and any further Class A Bonds issued by the Programme Issuer from time to time under the Programme, the Notes and the Authorised Credit Facilities form part of Class A Debt for the purposes of the STID.
- Where applicable, each of AWL, the Programme Issuer and/or the Issuer will be required to hedge their respective interest rate and currency exposure (to the extent it exceeds the threshold to be specified in the Hedging Policy) under the Senior Debt by entering into interest and currency swap agreements and other hedging arrangements with Hedging Counterparties in accordance with the Hedging Policy (see Chapter 7 "*Overview of the Financing Agreements – Hedging*" for more detail). The economic effect of any hedging entered into by the Programme Issuer or the Issuer will be passed on to AWL through the relevant Programme Issuer/AWL Loan Agreement or the Issuer/AWL Loan Agreements.
- As at the date hereof, there are no Hedging Transactions outstanding (see Chapter 7 "*Overview of the Financing Agreements – Hedging – Existing Hedging Agreements*" for more detail).
- In order to ensure that the Programme Issuer has sufficient funds on each Payment Date in respect of the Bonds to make payments due thereunder, the Programme Issuer and AWL entered into the Programme Issuer/AWL Loan Agreements. Payments made by AWL under the Programme Issuer/AWL Loan Agreements enable the Programme Issuer to make payments due on the Bonds issued by the Programme Issuer. Each Programme Issuer/AWL Loan Agreement provides for payments to become due from AWL to the Programme Issuer on dates and in amounts that match the obligations of the Programme Issuer in respect of Bonds issued by the Programme Issuer plus a profit margin (see Chapter 7 "*Overview of the Financing Agreements – Intercompany Loan Arrangements*" for more detail).
- The Programme Issuer and the Issuer may withdraw sums standing to the credit of the Debt Service Reserve Accounts and the Programme Issuer, the Issuer and AWL may draw under any DSR Liquidity Facility to enable them to meet any shortfall in the amounts available to them on any Payment Date to pay (a) scheduled interest or certain other payments in respect of Senior Debt (including payments due to be made by AWL under the Programme Issuer/AWL Loan Agreements and the Issuer/AWL Loan Agreements to enable the Programme Issuer or the Issuer, as the case may be, to make interest payments due on the Bonds or, as the case may be, the Notes); or (b) certain other payments ranking in priority to or pari passu with the Bonds or, as the case may be, the Notes (excluding any principal

repayments) (see Chapter 7 “*Overview of the Financing Agreements – Additional Resources Available – Liquidity Facilities*” for more detail).

- The respective obligations of AWL, the Programme Issuer and the Issuer to each of their Secured Creditors are guaranteed by each other in favour of the Security Trustee for itself and on behalf of the Secured Creditors (including, but not limited to the Noteholders) pursuant to the Security Agreement. Additionally, AWHL guaranteed in favour of the Security Trustee pursuant to the Security Agreement the respective obligations of AWL, the Programme Issuer and the Issuer.
- The guarantees and security are held by the Security Trustee for itself and on behalf of the Secured Creditors, including but not limited to the Noteholders, under the terms of the STID.

CHAPTER 4 RISK FACTORS

The following sets out certain aspects of the documentation and the activities of the Financing Group about which prospective Noteholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of the Issuer, AWL or the other Obligors or their ability to meet their obligations (including the payment of principal and interest) under the Notes.

Prospective Noteholders should note that the risks described below are not the only risks that the Issuer, AWL or the other Obligors face. The Issuer, AWL and the other Obligors have described only those risks relating to their operations and the Notes that they consider to be material. There may be additional risks that the Issuer, AWL 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 out above. Prospective Noteholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Noteholders may lose the value of their entire investment in certain circumstances.

In addition, while the various structural elements described in these Listing Particulars are intended to lessen some of these risks for holders of the Notes, there can be no assurance that these measures will ensure that the holders of the Notes receive payment of interest or repayment of principal from the Issuer in respect of such Notes on a timely basis or at all. Investors may lose all or part of their investment.

Legal and Regulatory Considerations

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

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

AWL's Instrument of Appointment Modifications

As further described in Chapter 6 “*Regulation of the water industry in England and Wales*”, AWL operates in accordance with the conditions of its Instrument of Appointment. Under the WIA, the conditions of the Instrument of Appointment may be modified by Ofwat with the consent of AWL or without AWL's consent where, following a reference to the 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 for the Environment has a power to veto certain proposed modifications agreed by Ofwat and AWL. Other proposed modifications agreed by Ofwat and AWL may be vetoed if it appears to the Secretary of State for the Environment that the modifications should only be made, if at all, after 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 that Ofwat may modify conditions of a licence where it considers such modification is necessary and expedient to implement any provisions made under the Water Act 2014 (see Chapter 6 “*Regulation of the water industry in England and Wales*”).

Any modification to the conditions of the Instrument of Appointment could have a material adverse impact on the business, financial condition or operational performance of AWL which could in turn have a material adverse impact on the Issuer's ability to make timely payments under the Notes.

Breach of Conditions of the Instrument of Appointment

As described in Chapter 6 “*Regulation of the water industry in England and Wales – Instruments of Appointment – Enforcement Powers*”, a failure by AWL to comply with the conditions of its Instrument of Appointment or certain statutory duties may lead to the making of an Enforcement Order or the imposition of financial penalties by Ofwat of up to 10 per cent. of AWL’s turnover, which could have a material adverse impact on AWL’s business and cashflows. The time limit for imposing such financial penalties has recently been extended by the Water Act 2014 from 12 months to 5 years thus increasing the time period over which such a penalty may be imposed. Failure by AWL to comply with any Enforcement Order (as well as certain other defaults) may lead to the making of a Special Administration Order, which could have a material adverse impact on AWL’s business and cashflows, and consequently on the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Notes.

Termination of the Instrument of Appointment

As described in Chapter 6 “*Regulation of the water industry in England and Wales – Instruments of Appointment – Termination of an Instrument of Appointment*”, there are certain circumstances under which AWL could cease to hold its Instrument of Appointment for all or part of its currently appointed area. The termination, non-renewal or transfer of the Instrument of Appointment could have a material adverse impact on AWL and, consequently, on the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Notes.

Under Section 9(4) of the WIA, if the Secretary of State for the Environment or Ofwat were to make an appointment or variation replacing AWL as the regulated water 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 AWL’s creditors were not unfairly prejudiced by the terms on which the successor Regulated Company (or Companies) replacing AWL could accept transfers of property, rights and liabilities from AWL.

Thus far there is no precedent to indicate how compulsory instrument of appointment terminations or Special Administration Orders would work in practice for Regulated Companies with water supply licence customers and with activities regulated by the water supply licensing (“**WSL**”) regime, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors’ interests would be protected, rendering the Noteholders’ position uncertain.

Competition in the water industry in England and Wales

The following paragraphs provide an outline of competition in the water industry in England and Wales.

Inset appointments

Inset appointments allow one Regulated Company to replace another as the provider of water in a specified geographical area within another Regulated Company’s appointed territory. There are currently no inset appointments within the AWL Regions; an inset appointment made in 2000 in respect of the Kodak site in the AWL Central Region having been reversed in 2004. AWL holds an inset appointment for Fairfield Park and Lower Wilbury Farm formerly in the Anglian Water Services Limited water supply area. However, should any inset appointments be made in any of the AWL Regions in the future, this would lead to a reduction in revenue from any customers within an inset area that would otherwise have been supplied by AWL and may potentially result in a material adverse effect on AWL’s business which, in turn, may have a negative impact on the Issuer’s ability to service its obligations under the Notes.

WSL regime and the Water Supply (Amendment to the Threshold Requirement) Regulations 2011

As further described in Chapter 6 “*Regulation of the water industry in England and Wales*”, the Water Supply (Amendment to the Threshold Requirement) Regulation 2011 reduced the non-household consumer threshold

in relation to the water supply licensing regime from 50 megalitres per annum to 5 megalitres per annum. The Water Act 2014 has also introduced a power for the Secretary of State for the Environment to repeal the WSL threshold for non-household consumers, and the Secretary of State for the Environment is expected to do so, effectively reducing the threshold to 0 megalitres (see further, Chapter 6 “*Regulation of the water industry in England and Wales – Regulatory Development*”).

The ability of customers already enabled, and who will be enabled by the Water Act 2014, to obtain their water supply from a different supplier could adversely affect AWL’s turnover, which could adversely affect AWL’s business, operational performance, profitability or financial condition and thus the Issuer’s ability to make timely payments under the Notes.

Water Act 2014 – competition for non-household activities

The Water Bill became an Act of Parliament on 14 May 2014. The Water Act 2014 will introduce retail competition for water and sewerage services to all non-household customers in England from 1 April 2017.

The “Open Water Programme” has been set up to support the delivery of the market reforms required to allow the non-household market to be opened on 1 April 2017 (see Chapter 6 “*Regulation of the water industry in England and Wales – Open Water Programme*”). The introduction of competition for non-household customers could introduce a degree of uncertainty into AWL’s business, which in turn could have an impact on the Issuer’s ability to make payments under the Notes.

AWL’s Revenue and Cost Considerations

The significant capital expenditure required to maintain AWL’s network presents the risk that the operating revenues generated by AWL from its water business may not be sufficient to enable it to make full and timely payment of amounts due to creditors. 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 Notes.

Periodic Review

The turnover, profitability and cashflow of the Appointed Business is substantially influenced by the service levels, regulatory targets and price limits established (i) (up to 31 March 2015, and from that date for wholesale activities only) every five years and (ii) (for retail activities from 1 April 2015) every five years or less, by Ofwat in its Periodic Review, and Ofwat’s assessment of delivery against those factors. A detailed description of the process under which Ofwat determines price limits for AWL is described in Chapter 6 “*Regulation of the water industry in England and Wales – Economic Regulation*”.

Ofwat Final Methodology for PR14

In July 2013, Ofwat published, “*Setting price controls for 2015-2020 – final methodology and expectations for companies’ business plans*” (the “**Ofwat Final Methodology**”). The changes under the Ofwat Final Methodology were implemented by amendments to Conditions A, B and C of the AWL Instrument of Appointment, which became effective from 22 July 2013. On 27 January 2014, Ofwat published, “*Setting price controls for 2015-20 – risk and reward guidance*”. This provides Ofwat’s views on the appropriate allowed return for wholesale activities, retail margins and range for out- and under-performance for the AMP6 Period. One of the key changes for the AMP6 Period includes introducing separate price controls for water wholesale, wastewater wholesale, household retail and non-household retail activities instead of a single price control (a more detailed description of the Ofwat Final Methodology is set out in Chapter 6 “*Regulation of the water industry in England and Wales*”). The new approach to price control and the introduction of competition for non-household customers could introduce a degree of uncertainty for AWL’s water revenues which, in turn, could have an impact on the Issuer’s ability to meet its obligations under the Notes.

AWL AMP6 Draft Determination

On 30 April 2014, Ofwat published “*Setting price controls for 2015-20. Draft price control determination notice: company specific appendix – Affinity Water*” (the “**AWL AMP6 Draft Determination**”).

It sets out AWL’s outcomes, performance commitments and outcome delivery incentives (“**ODIs**”) for the AMP6 Period. The ODIs identified include financial rewards and penalties where appropriate. Any financial penalties imposed as a result of AWL failing to meet any of its performance commitments or where its performance deteriorates could have an adverse impact on AWL’s revenue and thus the Issuer’s ability to meet its obligations under the Notes. See further Chapter 5 “*Description of the Financing Group – PR14 Business Plan, Enhanced Status and AWL AMP6 Draft Determination*”.

The AWL AMP6 Draft Determination also provides for an allowed amount of “totex”, which is Ofwat’s assessment of the capital and operating expenditure required by an efficient business to meet its wholesale outcomes and performance commitments. If AWL is unable to operate its business within the allowed totex or is required to invest in capital expenditure at a rate inconsistent with the allowed revenue or the allowed RCV additions, this may result in a cash shortfall or limit the ability to borrow cash which in turn could have an impact on the Issuer’s ability to meet its obligations under the Notes.

Although Ofwat has a duty to exercise and perform its powers and duties in the manner that it considers is best calculated to, amongst other primary duties, secure that companies are able (in particular, by securing reasonable returns on capital) to finance the proper carrying out of their functions, an adverse price determination (which would adversely affect turnover, profitability and cashflow for AWL) 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 materially adversely affect the financial performance and profitability of AWL which, in turn, could impact on the Issuer’s ability to meet its obligations under the Notes.

Interim Determinations

As described in Chapter 6 “*Regulation of the water industry in England and Wales – Economic Regulation – Interim Determinations of K*”, an interim determination of price limits (an “**IDOK**”) may be made between Periodic Reviews in specified circumstances, including, in the cases of AWL and most other Regulated Companies, the Shipwreck Clause (also known as the substantial effects clause) in the Instrument of Appointment.

There is however no assurance that any IDOK sought by AWL will be made or, if an IDOK or a determination pursuant to the provisions of the Shipwreck Clause is made, that such adjustment or determination, as the case may be, will provide adequate revenue compensation to AWL. In such an event, AWL would have to bear any additional cost from its own resources which could have an adverse impact on its profitability, cashflow and ultimate financial performance which may, in turn, have an adverse effect on the Issuer’s ability to service its obligations (including the payment of principal and interest) under the Notes.

Investors should also note that, as well as permitting Regulated Companies to seek an IDOK to increase revenues, under the Shipwreck Clause, Ofwat can request price limits to be reset at a lower level if a Regulated Company enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action (an “**SFE**”). On 25 October 2013, Ofwat initiated an informal consultation into whether it should launch an SFE against Thames Water Utilities Limited (although Ofwat has since decided not to

pursue the SFE) (for further details see Chapter 6 “*Regulation of the water industry in England and Wales – Interim Determinations of K – (c) Shipwreck Clause*”).

Where funding is considered during an interim determination, Ofwat may determine that the appropriate and reasonable level of cost of fulfilling certain obligations is likely to be less than the cost actually incurred by AWL in fulfilling those obligations. In these circumstances, the funding allowed by Ofwat may not totally cover the actual costs and AWL would bear this additional element from its own resources which could have an adverse impact on its profitability, cashflow and ultimate financial performance which may, in turn, have an adverse effect on the Issuer’s ability to service its obligations (including the payment of principal and interest) under the Notes.

Regulatory changes affecting RCV

RCV may be reduced or discontinued or the methodology for its calculation changed without modification of AWL’s Instrument of Appointment. This may impact the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Notes.

The CTA provides that if, solely as a result of a Price Control Change, there is a reduction of RCV so that the Senior RAR would exceed 0.95:1, then there will be a Senior RAR Restructuring Event. See further Chapter 7 “*Overview of the Financing Agreements – Common Terms Agreement – Events of Default*”.

Mechanism to facilitate AWL and the Secured Creditors to agree amendments in response to regulatory changes affecting RCV

The CTA allows AWL (following a Periodic Review (including following the occurrence of a Senior RAR Restructuring Event) or in the case of (i) any transfer of activities or (ii) any reduction in RCV as a result of any change in price control methodology or any material change in the regulation of the water industry in the United Kingdom) to amend the level of any financial ratio or related financial covenant definitions, Trigger Events or Events of Default subject to certain conditions set out in the CTA (see further Chapter 7 “*Overview of Financing Agreements – Common Terms Agreement – General*”).

Any amendment under this mechanism may be passed by the Majority Creditors notwithstanding that some Secured Creditors (including Noteholders) have voted against the proposed changes. It is possible that the interests of the Secured Creditors in respect of certain other Qualifying Debt will not be aligned with the interests of the Noteholders, and it is possible that, in relation to a vote following the above mechanism, owing to the relative size of Senior Debt that is capable of being voted by Authorised Credit Providers other than the Noteholders, the Security Trustee is given an instruction to change the financial ratios and/or associated definitions that is not in the interests of all Noteholders.

Failure by AWL to deliver its capital investment programme

The Appointed Business requires significant capital expenditure for additions to, or replacement of its assets. The price limits set by Ofwat take into account Ofwat’s view of the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs.

If AWL is unable to deliver its capital investment programme at expected expenditure levels or secure the expected level of efficiency savings on its capital investment programme, or the programme falls behind schedule or contains incorrect assumptions by AWL as to the capital investment required, AWL’s profitability or performance might suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Periodic Reviews by seeking to recover amounts equivalent to the “allowed costs” of any parts of the programme that are not delivered. AWL’s ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in fines imposed by Ofwat of an amount up to 10 per cent. of turnover or other sanctions and further increases in capital expenditure and operating expenditure. Such consequences could impact on AWL’s financial

performance, and thus impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

Changes in the rate of inflation

AWL's revenue and RCV during the AMP5 Period are linked to the underlying rate of inflation (measured by RPI) and as such are 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 AWL and on customers' ability to pay any increased charges. For the AMP6 Period, the link to the underlying rate of inflation will only apply to wholesale price control revenue and RCV (but not household retail price control and non-household retail price control). This exposure to fluctuations in inflation creates an element of unpredictability which means that AWL is exposed to such risks which it cannot accurately predict and provide for in its operations, and thus could lead to adverse consequences on AWL's financial performance, and thus impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

Construction Output Prices Index

Under the 2009 Final Determination, the allowed annual capital expenditure was indexed using the Construction Output Prices Index ("COPI"). There is a risk that the actual cost of capital investment in the AMP5 Period will be higher than the ex-post COPI-adjusted allowed capital expenditure, resulting in a revenue penalty applied in the Periodic Review process for the next AMP Period through the CIS mechanism. This may arise where contract conditions do not allow for index tracking (e.g. fixed cost contracts or contracts which are linked to RPI) and could lead to material, adverse consequences on AWL's financial performance and thus impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

Non-recovery of customer debt

Non-recovery of customer debt is a risk to AWL and may cause AWL's profitability 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 re-setting of its price limits through an IDOK during a Periodic Review Period when changes in the regulatory assumptions as to the level of non-recoverable debt are material, AWL would need to demonstrate that (a) the increase was due to a deterioration in the economy, and (b) AWL has put in place appropriate procedures and measures to mitigate the increase in debt levels. AWL may therefore suffer losses from its inability to recover its debts fully, which could adversely affect AWL's business, operational performance, profitability or financial condition, and, in turn, impact the Issuer's ability to meet its obligations under the Notes. Ofwat launched a consultation in January 2012 on tackling bad debt in the water industry (see Chapter 5 "*Description of the Financing Group – Bad Debt*").

Operational Risks

Water shortages

In the event of water shortages, additional costs may be incurred by AWL 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) may adversely affect AWL's turnover and may, in extreme circumstances require an emergency drought order (such circumstances have never been experienced by AWL). Any of this could lead to significant compensation becoming due to customers because of interruptions to supply, which could

adversely affect AWL's business, operational performance, profitability or financial condition, and, in turn, impact the Issuer's ability to meet its obligations under the Notes.

AWL operates in areas of serious water stress with fragile ecosystems close to some of its water resources. Potential water shortages may be exacerbated by reductions imposed by the England and Wales Environment Agency, the executive non-departmental public body responsible to the Secretary of State for the Environment, Food and Rural Affairs and a Welsh Government Sponsored Body responsible to the Minister for the Environment and Sustainable Development (the "EA") in the volume of water licensed to be abstracted to mitigate environmental damage or to achieve sustainable levels of abstraction. In particular, for AMP6, AWL has agreed with the EA to reduce the amount of water abstracted by 42 megalitres per day by 2020 (see Chapter 5 "*Description of the Financing Group – PR14 Business Plan, Enhanced Status and AWL AMP6 Draft Determination*"). A primary challenge for AWL's business at an operational level in meeting this performance commitment is adapting to the reduction in abstraction from a number of its groundwater sources in order to improve flows and habitats in local chalk streams. To assist in meeting the target, AWL plans to reduce leakage from the network by 14 per cent. by 2020. A further challenge to meeting the reduction in abstraction is that AWL's household customers are among the highest water users in the country with further increases in populations forecast. AWL intends to assist its customers to reduce their consumption by offering water efficiency advice and introducing a targeted universal metering programme.

However, there is a risk that AWL may not meet its performance commitment which could result in the imposition of financial penalties which could have an adverse effect on AWL's business. Further, costs may be incurred by AWL in implementing replacement water resources for which AWL may not be compensated and abstraction charges could be increased by the EA to cover compensation payments made to other abstractors whose instruments of appointment are revoked or varied to alleviate environmental impact, each of which could adversely affect AWL's business, operational performance, profitability or financial condition, and, in turn, impact the Issuer's ability to meet its obligations under the Notes.

Service interruptions due to key site or installation disruption

Unexpected failure of or disruption (including criminal acts, environmental conditions including flooding or a major health and safety incident) at a key site or installation operated by AWL or third parties (including reservoirs or treatment works) could cause a more significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that AWL operates, prejudicing its reputation and resulting in additional costs including liability to customers or loss of revenue, each of which could have an adverse effect on AWL's business, operational performance, profitability or financial condition which may, in turn, impact the Issuer's ability to meet its obligations under the Notes.

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, criminal acts and failures of third parties. In the event that AWL's water supply is contaminated and AWL is not aware of the contamination, the analysis of the contamination takes several days to complete or AWL is unable to substitute water supply from an uncontaminated water source, or to treat the contaminated water source in a cost-effective manner, there may be an adverse effect on its business, operational performance, profitability or financial condition because of the resulting prejudice to reputation and required capital and operational expenditures. AWL 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 may also adversely affect AWL's business, operational performance, profitability or financial condition.

Such operational costs may be partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the water industry in England and Wales*" or future Periodic Reviews but, in the event that

such recovery is not possible, such costs could be significant and could have an adverse effect on AWL's business, operational performance, profitability or financial condition. AWL also maintains insurance policies in relation to legal liabilities likely to be associated with these risks. However, not all the costs of any such liabilities may 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. All of this could indirectly impact the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

Catastrophe Risk

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 AWL's operational assets. Subject to a possible IDOK, any costs resulting from suspension of operations of AWL could have a material adverse effect on the ability of AWL to meet its financing obligations.

Although the CTA requires AWL to maintain insurance against all risks which are required to be insured against under any applicable law or regulation and any additional risks which a prudent owner would insure against, provided appropriate insurance is available on commercially reasonable terms, 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 Chapter 5 "*Description of the Financing Group – Insurance*"). Any such catastrophic event could therefore have materially adverse consequences for AWL's business and subsequently impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

Security Considerations

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 Instrument of Appointment. For example, the WIA and the Instrument of Appointment restrict AWL's ability to dispose of interests in (or create a charge or mortgage over) Protected Land (as explained in Chapter 6 "*Regulation of the water industry in England and Wales – Instruments of Appointment – Protected Land*"). The vast majority of AWL's assets by value are tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of AWL 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 for the Environment and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of AWL and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see section "*Special Administration*" below).

There are also certain legal restrictions which arise under the WIA 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 for the Environment, giving them time to petition for the appointment of a Special Administrator (see Chapter 6 "*Regulation of the water industry in England and Wales – Instruments of Appointment – Security*").

Accordingly, the security to be provided over the assets of AWL in favour of the Security Trustee in respect of the Secured Liabilities, including the Issuer's obligations under the Notes, affords significantly less protection to the Security Trustee (and, therefore, the Noteholders) than would be the case if AWL were not a Regulated Company subject to the provisions of the WIA and its Instrument of Appointment.

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by AWHL, the Programme Issuer and the Issuer. The enforcement of the security granted under the Security Agreement over the shares in any company in the Financing Group (other than the Issuer and the Programme Issuer), including any holding company of AWL, 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 AWHL over, and subsequently any planned disposal to a third party purchaser of, the shares in AWL would involve consultation with Ofwat. In addition, it is anticipated that any intended enforcement of the security created by AWHL under the Security Agreement, to the extent that such enforcement would amount to a relevant merger situation for the purposes of the Enterprise Act 2002 (the "**Enterprise Act**") or a concentration with a European Community dimension for the purposes of the European Merger Regulation, would require consultation with Ofwat and would be reviewable by the CMA or the European Commission.

Notice of the creation of the security by AWL was not given initially to AWL's customers or to AWL's contractual counterparties in respect of its contracts. Also, any security over any amounts due from customers that constitute statutory receivables may be limited by law. In addition, if AWL 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 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).

These issues expose the Noteholders to a risk that they will not be repaid in full on enforcement of the security under the Security Agreement.

Special Administration

As set out in Chapter 6 "*Regulation of the water industry in England and Wales – Instruments of Appointment – Special Administration Orders*", in certain circumstances (for example, where AWL is in breach of its principal duties under its Instrument of Appointment or of the provisions of a final or confirmed provisional Enforcement Order (and in either case such breach is serious enough to make it inappropriate for AWL to continue to hold its Instrument of Appointment) or is unable, or is unlikely to be able, to pay its debts or a creditor has petitioned for the winding up of AWL), this could lead to the appointment of a Special Administrator. 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.

During the period of the Special Administration Order, AWL 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 AWL 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. 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 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 an 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 properly to carry out the relevant functions of a Regulated Company. The transfer is effected by a transfer scheme which the Special Administrator puts in place, which 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).

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, and this therefore remains an inherent risk to the Noteholders being unable to recover all payments of interest and principal due under the Notes.

Environmental Considerations

Environmental

AWL’s water supply operations are subject to a significant number of EU and UK laws and regulations relating to the protection of the environment and human health. AWL and other Regulated Companies can incur significant costs in order to comply with such requirements imposed under existing or future Environmental Laws and regulations. Where such costs are not considered as part of a Periodic Review, in certain limited circumstances, AWL may apply for an interim determination. With the frequency of legislative changes, it is not always certain how future environmental laws will impact AWL and the financial condition of AWL and/or the interests of the Noteholders.

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

Financing Considerations

High Leverage

As at the date of these Listing Particulars, AWL’s indebtedness is substantial in relation to its RCV. As at 31 March 2014, the Senior RAR was 79 per cent. AWL is entitled under the Finance Documents to increase its leverage to 90 per cent. However, under the Finance Documents a Senior RAR of greater than 85 per cent. for AWL will result in a restriction on certain payments, such as dividends. The ability of AWL to improve its operating performance and financial results will depend upon economic, financial, regulatory and other factors, including fluctuations in interest rates and general economic conditions in the United Kingdom.

Accordingly, there can be no assurance of AWL’s ability to meet its financing requirements and no assurance that AWL’s high degree of leverage will not have a material adverse impact on its ability to pay amounts under the Issuer/AWL Loan Agreements, which would enable the Issuer to pay amounts due and owing in respect of the Notes. Incurrence of additional indebtedness by AWL, the Programme Issuer or the Issuer, which will be permitted under the Finance Documents, may materially affect the ability of AWL, the Issuer or the other Obligor to pay amounts due and owing in respect of the Notes.

Hedging Risks

The Financing Group is required to manage its exposure to interest rate and currency risks and may manage its inflation exposure and to that effect, each of the Programme Issuer, the Issuer and AWL are (and in the case of inflation risks, may be) required to enter into Hedging Transactions in accordance with the Hedging Policy. Any Hedging Agreement and the related Hedging Transactions may be terminated early, including as a result of a default by or insolvency of a Hedging Counterparty. The Financing Group is required to maintain its total outstanding liability profile so that at all times at least 85 per cent. of its total outstanding liability profile is not exposed to interest rate volatility for the current Periodic Review Period to the next Periodic Review and at least 75 per cent. of its total outstanding liability profile is not so exposed in the next Periodic Review Period. Please see Chapter 7 “*Overview of the Financing Agreements – Hedging – Termination of the Hedging Agreements*” for more detail. In the event that any Hedging Agreement and the related Hedging Transactions entered into by the Programme Issuer, the Issuer or AWL are terminated early and the Programme Issuer, the Issuer or AWL, as the case may be, is unable to find a replacement Hedging Counterparty, the Financing Group as a whole and/or the Issuer in particular may be left exposed to interest rates, currency or inflation risks and, as a result, the funds available to the Issuer may be insufficient to meet its obligations under the Notes.

Future Financing

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

- (i) finance future capital investment to AWL’s asset base;
- (ii) on each date on which principal is required to be repaid and on the maturity date of the Notes, refinance the Notes; and
- (iii) refinance the relevant Tranches of the relevant Sub-Classes of Bonds and any other debt 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 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 Notes or any other maturing indebtedness will be capable of being so paid when due.

Financing Structure Considerations

Issuer is a special purpose vehicle

The Issuer was established as a special purpose vehicle and is a special purpose financing entity with no business operations other than raising external funding for AWL through the issuance of the Notes, borrowing under the DSR Liquidity Facilities and entering into the Hedging Agreements. Other than the proceeds of the issuance of Notes, the Issuer’s principal source of funds for making payments due on the Notes is pursuant to the Issuer/AWL Loan Agreements and funds available to it pursuant to any DSR Liquidity Facilities. The Issuer issued a guarantee in respect of the obligations of each of AWL and the Programme Issuer. The Programme Issuer is also a special purpose financing entity with no business operations other than having raised external funds for AWL through the issuance of the Bonds, and whose principal source of funds available to service debt will be pursuant to the Programme Issuer/AWL Loan Agreements and the DSR Liquidity Facilities.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which AWL is subject. Such risks could limit funds available to AWL to enable AWL to satisfy in full and on a timely basis its

obligations under the Programme Issuer/AWL Loan Agreements, the Issuer/AWL Loan Agreements and its guarantee under the Security Agreement (see section “*AWL’s Revenue and Cost Considerations*” above) which, in turn, may have an adverse effect on the ability of the Issuer to make payments due (including payments of interest and principal) under the Notes.

Unification of the Affinity Group and tax risk

Where assets are transferred between two UK resident companies which were at that time members of the same capital gains tax group on a “no-gain no-loss basis”, a contingent liability to corporation tax on chargeable gains will arise by reference to the amount (if any) by which the market value of the assets transferred at the time of the transfer exceeds their base cost (a “**CGT degrouping charge**”). Subject to certain exceptions, such a CGT degrouping charge will generally be crystallised if the transferee company leaves the relevant capital gains tax group within 6 years of the date on which it acquired the assets in question while it (or an associated company also leaving the group) holds those assets. In certain circumstances, the transferee may be liable to corporation tax on chargeable gains in respect of such CGT degrouping charge.

However, where the transferee leaves the group as a result of a disposal of its shares (or the shares of another member of the chargeable gains group) no liability to corporation tax in respect of such CGT degrouping charge should arise in the transferee. Instead, the consideration treated as being received by the person disposing of the relevant shares should be treated as increased by a corresponding amount for the purposes of computing its liability to corporation tax on chargeable gains in respect of this disposal.

Where interests in UK land are transferred between two companies which are at that time members of a group for the purposes of the UK’s stamp duty land tax (“**SDLT**”) rules and relief under paragraph 3 of Schedule 7 to the Finance Act 2003 is claimed in respect of the transfer, subject to certain exceptions, such relief will be withdrawn and the transferee will become liable to pay SDLT in respect of the original transfer (a “**SDLT Clawback**”) if the transferee company leaves the relevant SDLT group within 3 years of the date on which it acquired the interest in the land in question while it (or an associated company also leaving the group) holds the interest in question.

As described in further detail in Chapter 5 “*Description of the Financing Group – Affinity Water Limited – History – Historical Background – Acquisition and Unification*” a reorganisation of the Affinity Water business was undertaken on 27 July 2012 to unify the water business of Affinity Water East Limited (previously known as Veolia Water East Limited) (“**AWE**”) and Affinity Water Southeast Limited (previously known as Veolia Water Southeast Limited) (“**AWSE**”) into the business of AWL. As a result, a CGT degrouping charge could arise if AWL ceases to be a member of the capital gains tax group of which Affinity Water Acquisitions (Investments) Limited is the principal company on or before 27 July 2018. Similarly, SDLT Clawback could arise in AWL if AWL ceases to be a member of the same SDLT group as AWE or AWSE (as the case may be) on or before 27 July 2015. AWL would cease to be a member of the relevant tax group if, for example, there were to be a voluntary disposal of AWHL or its subsidiaries (including AWL) before that date or, in certain circumstances, on the occurrence of Permitted Share Pledge Acceleration.

However, where the disposal is effected by way of a disposal of shares of AWL (or AWHL), no primary liability in respect of a CGT degrouping charge should arise in AWL. Instead, the consideration treated as being received by the seller of the relevant shares for the purposes of computing its liability to corporation tax on chargeable gains should be increased as discussed above.

If, despite the arrangements described below, a CGT degrouping charge or SDLT Clawback was triggered in AWL, the amount of the CGT degrouping charge would be based on the prevailing rate of corporation tax at the time the CGT degrouping charge is treated as arising as applied to the difference between the market value of the transferred assets at the time of transfer and their base cost. The amount of any SDLT Clawback would

be based on the prevailing rate of SDLT at the time of the original transfer applied to the market value at the time that the interest in land was transferred. The Issuer has been advised that, on that basis, the aggregate CGT degrouping charge and SDLT Clawback in respect of the unification described above, could amount to £24,000,000.

Should a CGT degrouping charge arise in AWL, it may be possible to offset this charge against available capital or other losses of AWL or other members of the relevant tax group. There can be no assurance, however, that any such losses would be available and usable to offset a CGT degrouping charge.

The risks associated with AWL ceasing to be a member of the relevant tax group are mitigated under the Tax Deed of Covenant in which the Obligors, Parent, Affinity Water Acquisitions (Holdco) Limited and Affinity Water Acquisitions (Investments) Limited make certain undertakings. The Obligors, Parent, Affinity Water Acquisitions (Holdco) Limited and Affinity Water Acquisitions (Investments) Limited covenant not to take any steps which could cause a CGT degrouping charge or SDLT Clawback to arise to any Obligor. If any such CGT degrouping charge or SDLT Clawback does arise, Affinity Water Acquisitions (Holdco) Limited covenants to pay an amount equal to such CGT degrouping charge or SDLT Clawback to the relevant Obligor (or otherwise discharge it without cost to any Obligor), where such charge arises as a result of the breach by Affinity Water Acquisitions (Holdco) Limited of its obligations under the Tax Deed of Covenant.

Source of payments to the Noteholders

None of the Notes are obligations or responsibilities of, nor are they guaranteed by, any of the Other Parties (other than the Guarantors). The guarantee provided by AWHL may be of limited value because it does not own, nor will it own, any significant assets other than its direct shareholding in AWL. The guarantee by the Programme Issuer may be of limited value because it does not own, nor will it own, any significant assets and, furthermore, the Programme Issuer has Financial Indebtedness outstanding under the Programme (which constitutes Class A Debt of the Financing Group).

The DSR Liquidity Facilities

AWL has agreed to maintain that (in aggregate) (i) committed DSR Liquidity Facilities in respect of Class A Debt and Class B Debt; and (ii) all amounts standing to the credit of the relevant Debt Service Reserve Accounts (including the value of Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Accounts) are at least equal to the Class A Required Balance or the Class B Required Balance, as the case may be. Investors should note that if the Senior RAR as calculated at the most recently occurring Calculation Date for each Test Period is equal to or less than 67.5 per cent., the Class A Required Balance will be zero.

If the Class A Required Balance is greater than zero, the DSR Liquidity Facilities and any amounts credited to the Debt Service Reserve Accounts are intended to cover certain shortfalls in the ability of AWL to service payments of (a) scheduled interest or certain other scheduled or periodic payments in respect of Senior Debt (including payments due to be made by AWL under the Programme Issuer/AWL Loan Agreements and the Issuer/AWL Loan Agreement to enable the Programme Issuer or the Issuer to make interest payments due on the Bonds or, as the case may be, the Notes); or (b) certain other payments ranking in priority to or *pari passu* with the Notes (excluding any principal repayments or accretion payments or early termination payments under Hedging Agreements). 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 Accounts or by the DSR Liquidity Facilities.

For as long as Senior Debt is outstanding, the commitment of the DSR Liquidity Facility Providers will need to be renewed on an annual basis. If the initial DSR Liquidity Facility is not renewed by a DSR Liquidity Facility Provider on the day falling prior to the anniversary of the Closing Date or the previous renewal date

(as applicable) then the commitment of that DSR Liquidity Facility Provider will terminate and any Standby Drawing made in respect of such DSR Liquidity Facility Provider will fall to be repaid on the date falling five years from the date on which the facility renewal was due to occur. The date of such commitment termination and repayment of Standby Drawings may fall prior to the Maturity Date of any Notes then outstanding. There can be no assurance that the Financing Group will be able to secure a replacement of any DSR Liquidity Facility Provider's commitment at a suitable interest rate, or on suitable terms, at the requisite time.

The termination of a DSR Liquidity Facility may, in the absence of a suitable replacement, adversely affect the Issuer's ability to make timely payments in respect of the Notes.

Note Considerations

Rights available to Noteholders

The Trust Deed contains provisions detailing the Note Trustee's obligations to consider the interests of the Noteholders as regards all powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise). 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 will not be required to have regard to the interests of any Finance Party (including the Note Trustee as trustee for the Noteholders) in relation to the exercise of such rights and, consequently, has no liability to the Noteholders as a consequence of so acting.

Intercreditor Rights of Noteholders

The Notes 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 Common Documents, subject to Entrenched Rights, Enhanced Rights Matters and Reserved Matters (see Chapter 7 "*Overview 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 majority of Qualifying Secured Creditors that vote on any Voting Matter (acting through their Secured Creditor Representatives).

Subject to Entrenched Rights, and provided that the relevant Quorum Requirement has been met, the Majority Creditors may make a modification to, or grant any consent or waiver in respect of, the Common Documents without the need to seek a confirmation from the Rating Agencies as to the then current ratings of the Notes.

As far as the voting rights of the Noteholders who are entitled to vote (the "**Qualifying Existing Bondholders**") with respect to such matters are concerned, and subject always to the Entrenched Rights, each Qualifying Existing Bondholder will be entitled to vote as part of the Class A DIG on a pound for pound basis within a certain specified decision period (see Chapter 7 "*Overview of the Financing Agreements – Security Trust and Intercreditor Deed – Bondholder Voting*" below).

Accordingly, in respect of modifications, waivers or consents in respect of provisions of the Common Documents (other than those in respect of Basic Terms Modifications (as defined in Condition 12 "*Meetings of Noteholders; Modification and Waiver; Substitution*")), a single vote by reference to the entire Outstanding Principal Amount of the Qualifying Secured Debt of each Authorised Credit Facility in respect of their Outstanding Principal Amount of the Qualifying Secured Creditors will be counted for or, as the case may be, against the applicable STID Proposal or Direction Notice. Votes cast in favour and votes cast against will then be aggregated by the Security Trustee with votes cast for and against by the other Qualifying Secured Creditors. There is therefore a risk that the votes of the Noteholders may not constitute a majority in respect of modifications, waivers or consents. Such risk is increased during a Default Situation when in respect of any STID Proposal or Direction Notice, the Security Trustee will act in accordance with a valid Emergency Instruction Notice (other than in respect of Entrenched Rights) in an amount equal to the aggregate Principal

Amount Outstanding of each Note that voted on the STID Direct Voting Matter within the Decision Period. Votes cast in favour and votes cast against will then be aggregated by the Security Trustee with the votes cast for and against by the other Qualifying Secured Creditors through their DIG Representatives. It is possible that the interests of the Qualifying Secured Creditors in respect of certain other Qualifying Debt will not be aligned with the interests of Noteholders, and it is possible that, in relation to votes on certain matters, owing to the relative size of Senior Debt that is capable of being voted by Authorised Credit Providers other than the Noteholders, the Security Trustee is given an instruction that is not in the interests of the Noteholders.

Under the terms of the STID and the CTA, the parties thereto agree that 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 Notes are also subject).

Limited Liquidity of the Notes; Absence of Secondary Market for the Notes

Notwithstanding the fact that an application has been made to admit the Further Notes to trading on the London Stock Exchange's Professional Securities Market, there is currently no secondary market for the Further Notes. There can be no assurance that a secondary market will develop, or, if a secondary market does develop that it will provide the holder of the Notes with liquidity or that any such liquidity will continue for the life of the Notes. Consequently, any purchaser of the Notes must be prepared to hold such Notes for an indefinite period of time or until final redemption or maturity of the Notes.

The liquidity and market value at any time of the Notes is affected by, among other things, the market view of the credit risk of such Notes 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 AWL, developments and trends in the water industry generally and events in the AWL Regions.

Rating of the Notes

The ratings assigned by the Rating Agencies to the Notes reflect only the views of the Rating Agencies and in assigning the ratings, the Rating Agencies take into consideration the credit quality of AWL 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 AWL or circumstances relating to the water industry generally.

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' judgment, circumstances so warrant. If any rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Future events, including events affecting AWL and/or circumstances relating to the water and wastewater industry generally, could have an adverse impact on the ratings of the Notes.

Withholding Tax under the Notes

In the event withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Notes, the Issuer is not obliged to gross-up or otherwise compensate the Noteholders for the fact that the Noteholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case. The Issuer will, in such event, have the option (but not the obligation) of:

- (i) arranging for the substitution of another company in an alternative jurisdiction in place of itself (subject to certain conditions); and, failing this,

- (ii) redeeming all Outstanding Notes in full (subject to certain conditions).

See Chapter 8 “*The Notes – Terms and Conditions of the Notes*” and Condition 5(b) (*Redemption for Taxation Reasons*).

EU Savings Directive

EU Council Directive 2003/48/EC regarding the taxation of savings income (the “**EU Savings Directive**”) requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted a directive (the “**Amending Directive**”) which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in a Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in a Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Directive requires Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Issuer and the Guarantors are required to maintain a Paying Agent with a specified office in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, which may mitigate an element of the risk of any withholding in respect of tax under the EU Savings Directive if the Noteholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the EU Savings Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

Change of Law

The structure of the transaction and, among other things, the issue of the Notes and ratings assigned to the Notes will be based on law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law 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 these Listing Particulars which change might impact on the Notes and the expected payments of interest and repayment of principal.

Changes in Financial Reporting Standards

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the Financing Group calculated by reference to the financial statements produced in respect of the companies in the Financing Group. These financial and other covenants

are set at levels which are based on the accounting principles, standards, conventions and practices adopted by the relevant companies in 2013.

The Transaction Documents provide for the possibility of adjustments to the basis of calculation of the Financial Ratios to reflect a change in accounting treatment of certain items. In certain circumstances such changes may take effect without a STID Proposal.

The accounting standards applicable to the Financing Group will be subject to amendment on mandatory adoption of FRS 101(or its international accounting standard equivalent) with effect from 1 April 2015.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the 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 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 Notes.

CHAPTER 5 DESCRIPTION OF THE FINANCING GROUP

The Financing Group

As at the date of these Listing Particulars, Affinity Water Holdings Limited (“AWHL”) is the holding company for the Financing Group. The principal business of AWHL is holding the shares of Affinity Water Limited (“AWL”), the group’s regulated water company.

AWHL is ultimately owned by a consortium of Infracapital Partners II (“**Infracapital**”), Morgan Stanley Infrastructure Partners (“**MSI**”) and Beryl Datura Investments Ltd (together, the “**Consortium of Equity Owners**”) and Veolia Environnement S.A. which has retained a minority shareholding through its subsidiary Veolia Water UK Limited (see further “*History – Historical Background – Acquisition and Unification*” below).

The principal activities of AWL are water supply and distribution and building and maintaining water supply infrastructure. They do not involve wastewater collection and treatment.

The Financing Group was established on the Closing Date as a “ring-fenced” financing group to separate (so far as practicable) AWL financially and operationally from the rest of the group. Management believes that the ring-fencing structure does and will provide significant benefits to AWL, providing better access to long-term debt markets and an opportunity to reduce significantly the cost of capital employed in the Regulated Business.

The structure of AWHL, its major subsidiaries, and its parent as at the date of these Listing Particulars, is set out in Chapter 3 “*Overview of the Financing Structure*”.

Affinity Water Limited

Overview

AWL is the largest of the water-only service companies in England and Wales, based on revenue and population served. The table below shows the pre-tax net profit and turnover for the year ended 31 March 2014 in respect of AWL.

| | AWL |
|------------------------------------|---------------|
| Turnover | |
| Period ended 31 March 2014..... | £291,381,000 |
| EBITDA¹ | |
| Period ended 31 March 2014..... | £ 166,936,000 |
| Pre-tax Net Profit | |
| Period ended 31 March 2014..... | £45,705,000 |
| Average number of Employees | |
| Period ended 31 March 2014..... | 907 |

Note:

- (1) “EBITDA” means profit on ordinary activities before interest and taxation before depreciation of infrastructure assets, depreciation of tangible fixed assets, amortisation of goodwill and amortisation of deferred credit.

The table below shows the Water Services Regulation Authority's ("Ofwat") estimates of the RCV of AWL.

| AWL's RCV ⁽²⁾ | RCV at 31 March 2013 ⁽³⁾ | RCV at 31 March 2014 ⁽⁴⁾ |
|--------------------------|--|--|
| | <i>(thousands)</i> | |
| AWL's RCV | £976,570 | £997,462 |

Note:

- (2) Figures sourced from Ofwat.
- (3) In 2012-13 financial year end prices.
- (4) In 2013-14 financial year end prices.

AWL operates in an area of approximately 4,515km² split into three regions in the south east of England (which represent the three regions in which it operated as separate entities prior to the unification of these businesses on 27 July 2012, as set out in "History – Historical Background – Acquisition and Unification" below): southeast (413km²) (the "AWL Southeast Region"), central (3,720km²) (the "AWL Central Region") and east (382km²) (the "AWL East Region" and, together with the AWL Central Region and the AWL Southeast Region, the "AWL Regions"). The AWL Central Region covers North London and the Home Counties both north and west of the capital including key urban centres such as Luton, Harlow, Stevenage, Watford and Woking. The AWL Southeast Region includes the urban centres of Folkestone and Dover and the AWL East Region includes the urban centre of Clacton. All three regions are determined by the Secretary of State for the Environment to be areas of serious water stress with current or future household demand for water being or likely to be a high proportion of effective rainfall available to meet current or future demand. Consequently, AWL has invested and continues to invest considerable resources in maintaining its water resources and managing demand to seek to ensure demand and supply remain in balance.

Set out below is a map of AWL's water supply area.



History

Historical Background – Acquisition and Unification

On 28 June 2012 Rift Acquisitions Limited (now Affinity Water Acquisitions Limited) acquired a 100 per cent. shareholding in Veolia Water Capital Funds Limited (now Affinity Water Capital Funds Limited) from Veolia Water UK PLC (now Veolia Water UK Limited) at a total transaction value of £1,236 million. Affinity Water Acquisitions Limited is ultimately owned by the Consortium of Equity Owners with Veolia Water UK Limited now maintaining a minority shareholding.

AWL comprises the water undertakings of six of the water only companies granted Instruments of Appointment by the Secretary of State for the Environment in 1989. AWL was originally incorporated as the Lee Valley Water Company by the Lee Valley Water Act 1959. Under powers conferred by the Water Act 1989, the Lee Valley Water Company was incorporated as Lee Valley Water Company PLC under the Companies Act 1985 and registered in England and Wales on 17 October 1990 as a public company limited by shares. The company was re-registered as a private limited company on 21 February 1992. The company was renamed Three Valleys Water PLC and re-registered as a public company limited by shares on 31 March 1994 when the Instruments of Appointment of Colne Valley Water Limited and Rickmansworth Water Limited were unified with the Instrument of Appointment of Lee Valley Water Limited. The Instrument of Appointment of North Surrey Water Limited was unified with the Instrument of Appointment of Three Valleys Water PLC on 1 October 2000. On 1 July 2009 Three Valleys Water PLC changed its name to Veolia Water Central Limited and was re-registered as a private limited company. With effect from 27 July 2012, the

Instruments of Appointment of Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited were unified with Veolia Water Central Limited acquiring all of the respective property, right and liabilities. The company was renamed Affinity Water Limited on 1 October 2012. The registered number of AWL is 02546950.

Instrument of Appointment

AWL is one of a number of water undertakers which are regional monopolies operating within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation. AWL is licensed to operate as a water undertaker for three separate regions in the southeast of England by means of the Instrument of Appointment. In particular, AWL's business and results are affected by the regulated tariff rates which AWL may charge its customers as well as by drinking water quality and environmental regulations and the terms of its Instrument of Appointment.

Economic Regulation

In each regulatory period up to and including the AMP5 Period, Ofwat set a price cap intended to enable water and wastewater companies in England and Wales to finance their operations and earn a reasonable return on capital. The Final Determination of the price cap for the regulatory period running from April 2010 to March 2015 ("AMP5") was published by Ofwat on 26 November 2009.

PR09 Final Determination and subsequent strategy to improve performance

AWL's regulatory and operational performance contributed to a challenging PR09 price review and Final Determination. The business experienced marginal network serviceability, failed its leakage target in 2009/10 and was set a challenging efficiency target for operating expenditure for the AMP5 Period. Following the PR09 price review, in early 2010, the business carried out an internal review to evaluate opportunities to improve its regulatory and operating performance.

Following this, during the years 2010 to 2014 the business has made improvements in the following areas:

- improved its capital delivery processes to optimise capital expenditure over the AMP5 Period;
- met its leakage target in each of the first four years for AMP5;
- realised £25 million¹ in operating cost net efficiencies since 2010 through measures including but not limited to headcount and contractor reductions;
- improvement in SIM performance from 2010/11 to 2013/14; and
- maintained stable network serviceability status from 2011/12 onwards.

PR14 Business Plan, Enhanced Status and AWL AMP6 Draft Determination

In July 2013, Ofwat published the Ofwat Final Methodology (as defined above) for the Price Review 2014 ("PR14") process. The methodology confirmed the overall framework and timetable for setting price controls for the five years from April 2015 to March 2020 ("AMP6") and what Ofwat would expect in a high quality business plan. The methodology was supplemented between July and December 2013 by the publication of a series of 'Information Notices' providing further guidance in specific areas.

On 2 December 2013, AWL submitted its PR14 Business Plan, which set its proposed prices, performance commitments and levels of investment as discussed further below. On 10 March 2014, Ofwat pre-qualified the AWL PR14 Business Plan for 'enhanced' status based on its high quality, link through to customer research evidence, and its community-focused vision. On 4 April 2014 Ofwat confirmed AWL's 'enhanced'

¹ This figure is taken from AWL's strategic report which forms part of AWL's annual report.

status and on 30 April 2014, Ofwat published AWL’s AMP6 Draft Determination. AWL was one of only two water companies in England and Wales to be awarded ‘enhanced’ status by Ofwat for its PR14 Business Plan submission.

The AWL PR14 Business Plan is shaped around the expectations of AWL’s customers. AWL has undertaken extensive customer and stakeholder research to establish its key outcomes including the expectations its stakeholders have of its business. This research involved a variety of means, including face-to-face workshops, online panels and web-based and paper surveys. AWL’s “Let’s Talk Water” campaign reached an estimated 1.5 million customers. AWL’s independently chaired Customer Challenge Group (“CCG”) advised and challenged AWL during each stage of the creation of its PR14 Business Plan.

This consultation and engagement informed AWL that its customers and stakeholders have four key expectations which have formed the basis of the customer outcomes set out in the AWL PR14 Business Plan:

- “Making sure our customers have enough water, whilst leaving more water in the environment”;
- “Supplying high quality water you can trust”;
- “Minimising disruption to you and your community”; and
- “Providing a value for money service”.

AWL faces several challenges in meeting these expectations. AWL operates in areas of serious water stress with fragile ecosystems close to some of its water resources. AWL’s Water Resources Management Plan identified that its household customers are among the highest water users in the country with further increases in population in the geographical area covered by AWL forecast. The performance commitments and ODIs for 2015-2020 for each of these expectations are set out below (see “*AWL AMP6 Draft Determinations*”).

AWL AMP6 Draft Determination

The AWL AMP6 Draft Determination published by Ofwat on 30 April 2014 sets out the proposed allowed revenue AWL can charge customers for water services in 2015-2020. The AWL AMP6 Draft Determination also provides for an allowed “totex” (Ofwat’s assessment of the capital and operating expenditure required by an efficient business to meet its wholesale outcomes and performance commitments). The allowed totex is remunerated to AWL by either allowed revenue charged to its customers or allowed RCV additions. The allowed totex in the AWL AMP6 Draft Determination is greater than the totex projections provided for in the AWL PR14 Business Plan submission which is positive for AWL since it permits a greater amount of totex expenditure by AWL than that provided for in the AWL PR14 Business Plan to achieve its outcomes and commitments.

The AWL AMP6 Draft Determination sets out AWL’s outcomes, performance commitments and outcome delivery incentives (“ODIs”) (see Chapter 6 “*Changes to Ofwat’s approach to price controls for AMP6*”). These are reproduced below. The outcomes reflect those identified in the AWL PR14 Business Plan as set out above.

| Customer Outcome | Performance Commitment | Type of ODI |
|---|-------------------------------|--------------------|
| | Leakage | Reward and penalty |
| “Making sure our customers have enough water, whilst leaving more water in the environment” | Average water use | Penalty only |
| | Water available for use | Penalty only |

| | | |
|---|--|-------------------------|
| | Abstraction Incentive Mechanism | Non financial incentive |
| | Sustainable abstraction reduction | Reward and penalty |
| “Supplying high quality water you can trust” | Compliance with water quality standards | Penalty only |
| | Customer contacts for discoloration | Penalty only |
| “Minimising disruption to you and your community” | Unplanned interruptions to supply over 12 hours | Reward and penalty |
| | Number of burst mains | Penalty only |
| | Affected customers not notified of planned interruptions | Compensation payments |
| | Planned work taking longer to complete than notified | Compensation payments |
| | Service Incentive Mechanism | Reward and penalty |
| “Providing a value for money service” | Value for money survey | No financial incentive |

The Abstraction Incentive Mechanism (“AIM”) noted above was conceived as a flexible approach to encourage water companies to use any ‘slack’ available in their existing water resources base to reduce abstraction from sources when and where water levels are low, and where further abstraction could harm the environment. In respect of the Service Incentive Mechanism, see Chapter 6 “*Customer Interests – Service Incentive Mechanism*”.

For further details of the process for PR14, please see Chapter 4 “*AWL’S Revenue and Cost Considerations – Periodic Review*”.

For further details of the changes to Ofwat’s approach to future price controls, please see Chapter 6 “*Regulatory Developments*”.

Water Supply Operations

Overview

AWL’s water supply service to customers consists of the abstraction of water and its subsequent treatment and distribution to homes and other premises. Abstraction refers to the removal of water from surface sources, such as reservoirs and rivers (surface water), or from underground sources, such as aquifers (groundwater). All water is then treated prior to being supplied to customers. Partially treated or untreated water may be supplied for industrial use, but water undergoes full treatment before being supplied to domestic customers, with the treatment processes used dependent on the quality of the raw water. All water undergoes a disinfection process before passing from a treatment works into a distribution network of interconnected water mains, service reservoirs and water towers.

The table below provides a summary of the sources from which AWL abstracted water for public supply in regulatory year 2013/14²:

| Source for abstraction | AWL Central Region (per cent.) | AWL East Region (per cent.) | AWL Southeast Region (per cent.) |
|--|---------------------------------------|------------------------------------|---|
| Groundwater..... | 60.83 | 83.23 | 99.90 |
| Surface water..... | 36.03 | 16.77 | 0.00 |
| <i>of which raw water reservoirs.....</i> | 0.00 | 16.77 | 0.00 |
| Bulk supply from neighbouring water companies..... | 3.14 | 0.00 | 0.10 |

The mix of the types of abstraction sources in the AWL Instrument of Appointment area is largely a product of historical development and geology. Groundwater and raw water surface reservoirs typically provide more reliable water supplies than surface water river abstraction as rainwater can be stored from the winter to maintain supplies during summers and to provide security against drought. Much of AWL Central Region's groundwater is derived from karstic borehole sources and has characteristics similar to surface water that requires complex treatment resulting in materially higher costs.

The table below shows the number of source abstraction licences in respect of the AWL Central Region, AWL East Region and AWL Southeast Region respectively. AWL also holds 7 bulk supply import agreements and 4 bulk supply export agreements across the AWL Regions. The table below also shows the percentage of existing licence capacity utilised on average in 2013/2014 in respect of the AWL Central Region, AWL East Region and AWL Southeast Region.

| Source for abstraction | AWL Central Region | AWL East Region | AWL Southeast Region |
|--|---------------------------|------------------------|-----------------------------|
| Source abstraction licences held | 66 | 4 | 15 |
| Utilisation of existing licence capacity | 78% | 64% | 50% |

AWL along with Anglian Water, has a statutory entitlement to take water from Grafham and Ardleigh Reservoirs. These reservoirs are operated by Anglian Water.

Customers

Two key principles underpin AWL's charges scheme. The first principle is that AWL will ensure that the relevant charges are within the limits determined by Ofwat and secondly AWL will ensure that the charges do not show undue preference to any class of customer. AWL has three charging methods for water supply. Customers occupying a property where a meter is fitted are charged by the volume of water supplied. Where this is not the case, customers occupying other properties either pay a charge based on the rateable value of the property or an assessed charge.

On average in the year to 31 March 2014 approximately 44.53 per cent., 76.70 per cent. and 92.92 per cent. of total households and 86.50 per cent., 99.18 per cent. and 97.87 per cent. of non-households which are

² Although AWL, AWE and AWSE were unified with effect from 27 July 2012, some data continues to be reported to Ofwat some data for each region individually for the remainder of AMP5.

supplied by AWL in the AWL Central Region, AWL East Region and AWL Southeast Region respectively had their water consumption metered.

The table below sets out, as at 31 March 2014, the number of customers supplied by AWL above the WSL competition threshold of 5 megalitres per year (which was reduced from 50 megalitres in December 2011) and the estimated water services revenues this accounted for. No single customer accounts for more than 0.3 per cent. of AWL's revenues from its water services operations. Even if certain of the customers above the WSL competition threshold chose to switch providers, AWL would still receive a wholesale price for the water unless the new provider had access to an alternative source of water. In addition, the table below on the basis of the Regulatory Information for the year ended 31 March 2014 shows the appointed revenue of AWL.

| | AWL |
|--|------------|
| Customers above WSL competition threshold | 1,531 |
| Appointed revenue for the water business (£ million)..... | £293.0m |
| Appointed turnover vs. turnover plus other income (per cent.)..... | 97.4% |

Customer Service

Ofwat measures customer service performance through a Service Incentive Mechanism (“SIM”). SIM comprises two components – a quantitative score that measures the number of written complaints and unwanted telephone contacts that the company receives, and a qualitative score that measures, using Ofwat’s independent research, how satisfied customers are with the quality of service they receive. Quantitative and qualitative scores are weighted 50:50 to produce the combined SIM consumer experience measure. The combined score is used to compare company performance from 2011/12 onwards and is being used by Ofwat to calculate incentive and penalties at PR14.

The table below sets out the SIM score for AWL for 2013/2014.

| AWL’s SIM Scores | Quantitative Score (out of 50) | Qualitative Score (out of 50) | Combined Score (out of 100) |
|-------------------------|---|--|--|
| AWL..... | 36.5 | 42.2 | 78.7 |

The table below contains the water supply approximate base statistics for 2013/2014:³

| Description | Value | | | |
|-------------------------------|---|----------------------------|-------------------------------------|--------------------------|
| | <i>Average Properties served during 2013-14</i> | | | |
| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Aggregate |
| Properties served..... | 1,301,643 | 75,829 | 77,176 | 1,454,648 |
| Domestic premises billed..... | 1,199,762 | 68,931 | 69,084 | 1,337,776 |

³ AWL, AWE and AWSE were unified with effect from 27 July 2012. These figures show individual figures for each region.

| Description | Value | | | |
|---|---|--------------------|----------------------------|------------------|
| | <i>Average Properties served during 2013-14</i> | | | |
| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Aggregate |
| Unmeasured..... | 674,004 | 15,977 | 5,036 | 695,017 |
| Measured..... | 525,758 | 52,954 | 64,047 | 642,759 |
| Business/non-domestic premises billed.... | 61,248 | 4,003 | 4,874 | 70,125 |
| Unmeasured..... | 8,190 | 30 | 84 | 8,304 |
| Measured..... | 53,058 | 3,973 | 4,791 | 61,821 |
| Void Properties..... | 40,634 | 2,894 | 3,219 | 46,747 |

Water quality

AWL invests to ensure that high standards of drinking water quality are maintained. The DWI reviews investment proposals and Ofwat determines the level of investment to be included in the relevant price control. During the AMP5 Period, AWL expects to have invested £36.1 million in respect of the AWL Central Region, £0.2 million in respect of the AWL East Region and £7.1 million in respect of the AWL Southeast Region (in 2007/08 prices) on drinking water quality improvements.

Treated water is distributed to a population of around 3.6 million through 1.46 million customer connections and a network of around 16,500 km of water mains. To assess compliance with drinking water standards prescribed in the Water Supply (Water Quality) Regulations 2010 (the “**Water Regulations**”), AWL monitors water quality through an extensive programme of regular sampling and analysis. The Water Regulations prescribe the legal requirements for monitoring and analysis of drinking water. Trained, accredited, uniformed samplers take samples from all water treatment works, service reservoirs, water towers and directly from customers’ taps across the Instrument of Appointment area. The Water Regulations specify the numbers of samples to be taken from each location, and the analysis to be undertaken. The numbers of samples taken from a water treatment works depend on the volumetric output of the site, with monitoring dependent on the population served. Every month the results of all samples taken as part of the Water Regulations are submitted to the drinking water quality regulator, the DWI, along with commentary detailing the outcome of investigations into any breaches of drinking water standards.

The DWI Chief Inspector publishes a report summarising drinking water quality in England and Wales that includes mean zonal compliance and a number of comparative compliance indices. These are also used by Ofwat to assess asset performance. In the 2013 calendar year, performance for the significant indices was as set out in the table below.⁴

| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Combined score |
|--|-----------------------|--------------------|----------------------------|--------------------------|
| Mean Zonal Compliance..... | 99.99 | 100 | 100 | 99.99 |
| Reservoir Integrity Index (per cent.)..... | 99.97 | 100 | 100 | 99.97 |

⁴ Although AWL, AWE and AWSE were unified with effect from 27 July 2012, AWL continues to report to Ofwat figures for each region individually for the remainder of AMP5.

| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Combined score |
|--|-------------------------------|----------------------------|-------------------------------------|-----------------------------------|
| Process Control Index (per cent.)..... | 99.99 | 100 | 100 | 99.99 |
| Disinfection Index (per cent.) | 99.97 | 100 | 100 | 99.98 |

Undertakings

If a water company is contravening or is likely to contravene a water quality requirement, the Secretary of State for the Environment may (in lieu of making an enforcement order) accept from the water company a legally enforceable undertaking by which it undertakes to take appropriate steps to secure or facilitate compliance with the relevant requirement. AWL has provided a number of such undertakings to the DWI in respect of its water quality programmes for AMP5 and AMP6.

Sources of Abstraction

The table below summarises the number of groundwater sources, impounding reservoirs and river abstractions AWL owns, operates and maintains and the combined raw water storage capacity of its impounding reservoir. The only impounding reservoir, Ardleigh, is jointly owned with Anglian Water and has a gross capacity of 2,185 megalitres.

| Region⁽¹⁾ | Groundwater sources | Impounding reservoirs | | River abstractions |
|-----------------------------|--------------------------------|------------------------------|--|-------------------------------|
| | | <i>Number</i> | <i>Storage capacity (Megalitres)</i> | |
| AWL Central Region..... | 95 | 0 | 0 | 10 |
| AWL East Region..... | 7 | 1 | 2,185 | 0 |
| AWL Southeast Region..... | 19 | 0 | 0 | 0 |
| AWL Aggregate | 121 | 1 | 2,185 | 10 |

Note:

- (1) The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

Water Treatment Works and Water Mains

The table below sets out the treatment works operated by and the water mains maintained by AWL.

| Region⁽¹⁾ | Treatment works | | Water mains |
|-----------------------------|------------------------|---|------------------------|
| | <i>Number</i> | <i>Megalitres of water produced per day</i> | <i>Maintained (km)</i> |
| AWL Central Region..... | 81 | 845 | 14,544 |
| AWL East Region..... | 2 | 28 | 912 |
| AWL Southeast Region | 15 | 38 | 1,112 |

| Region ⁽¹⁾ | Treatment works | | Water mains |
|-----------------------|-----------------|---|------------------------|
| | <i>Number</i> | <i>Megalitres of water produced per day</i> | <i>Maintained (km)</i> |
| AWL Aggregate..... | 98 | 911 | 16,568 |

Note:

- (1) Although AWL, AWE and AWSE were unified with effect from 27 July 2012, AWL continues to report to Ofwat figures for each region individually for the remainder of AMP5.

Across the AWL region there are six treatment works providing on average 477 megalitres per day making up 52 per cent. of water produced per day.

For the past four report years AWL has met its Ofwat leakage target with average leakage in the report year 2013/14 in respect of the AWL Central Region, AWL East Region and AWL Southeast Region of 170, 4 and 7 megalitres per day, respectively.

Planning and Investment

Supply and Demand

AWL relies on water demand modelling to maintain a secure balance of water supply and demand into the future. The demand for water is forecast by considering the components of residential and commercial/industrial supplies and leakage. This forecast is supported by extensive analysis of domestic water use, economic analysis of trends in industrial demand and the evaluation of the economic levels of leakage. Forecasts are revised periodically and agreed with Ofwat and the EA. Forecasts of demand include the distribution and predicted growth of population at local level and the impact of climate on the peak demand for water.

Demand for water is determined by a number of factors. The most important factors that affect future demand are the change in population, household numbers, the amount of leakage and the proportion of measured and unmeasured customers, i.e. customers who have water meters installed (as metered customers generally use less water than customers billed on the rateable value of the property), reductions due to water efficiency initiatives and impact of climate change.

In order to ensure there is sufficient water to supply AWL's drinking water customers, both in the short-term and over the long-term, AWL must manage its water resources, treatment and distribution efficiently and effectively. As with other water companies, AWL has outlined its long-term 25 year supply and demand strategy in its Water Resources Management Plan, as required under the WIA.

AWL consulted extensively on its draft Water Resources Management Plan during the summer of 2013. AWL's revised draft Water Resources Management Plan and Statement of Response (both published in November 2013) took account of representations from a wide range of regulators, stakeholders and interest groups. Following minor clarifications, the Secretary of State directed AWL to publish its Final Water Resources Management Plan (the "FWRMP") and in June 2014 the FWRMP was published for the period 2015 to 2040.

As part of AWL's FWRMP, it has been agreed with the EA to make sustainability abstraction reductions of 42 megalitres per day by 2020. A primary challenge for AWL's business at an operational level is adapting to the

reduction in abstraction from a number of its groundwater sources in order to improve flows and habitats in local chalk streams.

The impact of climate change has been incorporated into AWL’s FWRMP both on the supply side and the demand side, which looks at the forecast increase in demand for water due to longer, drier, warmer summers.

Suppliers

There are a number of factors that underpin AWL’s ability to provide a reliable supply of drinking water to its customers. AWL relies on (i) information systems software and hardware to monitor supply of water and billing of customers; (ii) electricity to operate pumping stations, treatment plants and the pipe network; (iii) chemicals for water, treatment and purification; and (iv) a variety of materials as well as logistics and support services relating to installation of network infrastructure and other assets.

Outsourcing

AWL utilises a number of third party providers of goods and services to support its operations and the delivery of its capital investment programme. Performance of contractors is monitored through a number of key performance indicators.

In July 2009, AWL (while under the ownership of Veolia Water UK PLC) entered into a contract with Affinity Water Shared Services Limited (“AWSS”), a wholly owned subsidiary of Affinity Water Capital Funds Limited, for the provision of certain professional and transactional services. The services provided by AWSS include fleet, human resources, procurement, information technology, legal, internal audit, communications and transactional finance services. AWSS operates on a “not for profit” basis, therefore, this contract is not on arm’s length terms and is operated at cost. Ofwat has approved these arrangements. Each of the outsourced services is now under the direct management of the AWL management team. AWL intends to transfer into its business all of AWSS’ employees as soon as reasonably practicable.

Asset Condition and Serviceability

AWL’s Instrument of Appointment requires it 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 a stable state, and tracks the condition of AWL’s assets over time. The asset condition which AWL is reporting is set out in the table below.⁵

| | Performance 2013/2014 | | | Performance 2012/2013 | | | Final Determination Reference Levels 2013/14 | | |
|--------------------------|-----------------------|-----------------|----------------------|-----------------------|-----------------|----------------------|--|-----------------|----------------------|
| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region |
| Infrastructure..... | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |
| Non-infrastructure | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable | Stable |

Capital Investment Programme

A summary of the current gross capital expenditure programme determined by Ofwat for the AMP5 Period is set out below:⁶

⁵ Although AWL, AWE and AWSE were unified with effect from 27 July 2012, AWL continues to report to Ofwat figures for each region individually for the remainder of AMP5.

⁶ Although AWL, AWE and AWSE were unified with effect from 27 July 2012, AWL continues to report to Ofwat figures for each region individually for the remainder of AMP5.

| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Aggregate |
|--------------------------------------|--|--------------------|----------------------------|------------------|
| | <i>(£ million) (At 2007/08 prices)</i> | | | |
| Maintenance Infrastructure | 185.78 | 6.36 | 11.78 | 203.92 |
| Maintenance Non-Infrastructure..... | 139.52 | 7.36 | 14.564 | 161.444 |
| Quality..... | 36.10 | 0.20 | 7.07 | 43.37 |
| Supply/Demand | 21.09 | 1.42 | 2.73 | 25.24 |
| Enhanced Service Level..... | 3.16 | 0.00 | 0.18 | 3.34 |
| Total Gross Capital Investment | 385.64 | 15.35 | 36.34 | 437.33 |

Regulatory and Price Review Performance

The price limits (K) set by the 2009 Final Determination average -1.2 per cent. in respect of the AWL Central Region, -1.1 per cent. in respect of the AWL East Region and +0.9 per cent. in respect of the AWL Southeast Region for the AMP5 Period. This compares to the weighted average for WOCs of +0.3 per cent. and for water and sewerage companies (“WASCs”) of +0.5 per cent.

On unification, AWL’s Licence was updated to provide an equivalent consolidated K factor for the remainder of the AMP5 Period.

In November 2013, water companies received requests from the Secretary of State and Ofwat to consider not implementing the full price increases (nominal or real) for 2014/15 that were allowed for in PR09. Companies were asked to consider this request in the context of the cost-of-living pressures experienced by households across the country and the lower costs of financing available to companies than Ofwat had anticipated when setting price limits at PR09. In response to the request, AWL abated half of its allowed nominal increase for 2014/15.

Current Regulatory Performance

Ofwat Water Supply Performance Measures

The tables below set out AWL’s performance across a range of outputs against the reference levels for those outputs determined by Ofwat at the 2009 Final Determination.

Performance Summary⁷

| | Performance Calendar Year 2013 | | | Performance Calendar Year 2012 | | | Final Determination Reference Levels Calendar Year 2013 | | |
|---|-----------------------------------|-----------------------|----------------------------|-----------------------------------|-----------------------|----------------------------|--|-----------------------|----------------------------|
| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region |
| Drinking water quality compliance ⁽¹⁾ | 99.99 | 100 | 100 | 99.94 | 99.91 | 100 | 99.99 | 99.99 | 99.99 |

⁷ Although AWL, AWE and AWSE were unified with effect from 27 July 2012, AWL continues to report to Ofwat figures for each region individually for the remainder of AMP5.

Note:

- (1) DWI mean zonal compliance measures.

| | Performance 2013/2014 | | | Performance 2012/2013 | | | Final Determination Reference Levels 2013/14 | | |
|--|-----------------------|-----------------|----------------------|-----------------------|-----------------|----------------------|--|-----------------|----------------------|
| | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region | AWL Central Region | AWL East Region | AWL Southeast Region |
| Security of supply (annual average) ⁽¹⁾ | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Leakage (Ml/d)..... | 169.8 | 4.3 | 6.7 | 178.2 | 4.2 | 7.1 | 185 | 5.1 | 7.6 |
| Mains bursts (per 1,000km) | 154.6 | 53.8 | 70.1 | 146.1 | 64.6 | 86.1 | 239 | 85 | 90 |
| Properties receiving low pressure (nr)..... | 776 | 0 | 8 | 89 | 0 | 7 | 250 | 0 | 2 |
| Properties experiencing unplanned supply interruption ⁽²⁾ | 0.12 | 0.01 | 0.00 | 0.17 | 0.00 | 0.00 | 0.25 | 0.00 | 0.00 |

Note:

- (1) The Security of Supply Index (“SOSI”) assesses a water company’s ability to supply water to customers in drier years.
- (2) Index of number of properties affected by unplanned or unwarned supply interruptions of greater than twelve hours (rate per 1,000 properties connected to the water network).

Drinking Water Quality: AWL has maintained a high level of compliance with mandatory EU and UK drinking water quality standards. Overall mean zonal compliance in respect of the AWL Central Region, AWL East Region and AWL Southeast Region (the key compliance measure used by the DWI) was 99.99 per cent., 100 per cent. and 100 per cent. respectively in the year ended 31 December 2013. The combined mean zonal compliance was 99.99 per cent., which is above the industry average of 99.97 per cent.

Leakage control and security of supply: Despite challenges in recent years due to drought, AWL has managed its resources effectively in respect of the AWL Regions and met the SOSI score of 100. Managing leakage has been one of the main operational priorities and the investment in leakage identification coupled with the replacement of leaking pipes has enabled AWL to meet its annual leakage target in respect of the AWL Regions for two consecutive years.

Serviceability assessment: AWL measures the condition of its water supply network using an approach called serviceability assessment. ‘Serviceability’ is the capability of a water supply network to deliver a reference level of service to customers and to the environment now and in the future. Serviceability is deemed to be stable when a range of service indicators demonstrates that performance is in line with the reference level of service and, by inference, is likely to remain so in the future.

Low Water Pressure: During a period of extremely hot weather during the summer of 2013, 776 properties experienced low water pressure due to the high demand placed on the network during this time.

AWL’s own assessment of the below ground infrastructure network during 2013/14 is that it is stable. AWL’s own assessment of the serviceability of its above ground assets is that they are stable.

Bad Debt

Following the introduction of the Water Industry Act 1999, regulated water companies were barred from disconnecting residential customers from their water supply for failure to pay bills. Industrial and commercial customers, however, are subject to a number of actions, including disconnection where persistent failure to settle charges occurs. In the financial year 2013/14, the bad debt charge for AWL amounted to 2.5 per cent. of water service revenue. AWL is continually developing its collection procedures and systems and works with the Consumer Council for Water to ensure its processes are rigorous and fair.

Insurance

AWL maintains insurance cover consistent with Good Industry Practice, including insurance policies against property damage and business interruption, employer's liability, public liability and directors' and officers' liability, motor vehicles and terrorism.

These insurance policies have been reviewed by an independent reputable insurance adviser retained to ensure that AWL's insurances (i) are consistent with Good Industry Practice; (ii) have regard to the risk being covered; (iii) address the interests of AWL and each Finance Party; and (iv) are placed and maintained with insurers and underwriters of international repute and who are not affiliates of AWL. As noted in Chapter 4 "*Risk Factors – Catastrophe Risk*", there can be no assurance that insurance coverage will be available for all risks. AWL has experienced a small number of claims from former employees and their families arising from historical primary or secondary exposure to asbestos during their employment, where insurance coverage was not available under current or previous insurance policies.

Environment

AWL aims to operate efficiently and to minimise its environmental impacts through the prudent use of natural resources, reductions in waste production and carbon emissions, and, protection of the environment. This is implemented through the provision of strategies and continuous monitoring of performance in the following areas:

- Water resources and strategic water resource management;
- Energy management, carbon accounting and climate change;
- Waste reduction, minimisation and management; and
- Conservation, access and recreation reporting.

Pensions

A new Affinity Water Pension Plan ("AWPP") was established in February 2013, set up as an identical scheme to the Veolia UK Pension Plan ("VUKPP"), the plan in which the company participated until 28 March 2013. The benefits of employees and former employees of the company along with the assets were transferred into the AWPP with effect from 28 March 2013. The AWPP is a multi-employer sectionalised pension plan with Defined Benefits (DB) and Defined Contribution (DC) sections. The DB section was closed to new entrants in 2004 since which date new members have only been eligible to join the DC section.

Litigation/Actions

There are no, and have not been any litigation or arbitration proceedings which have, may have or have had, within the period of 12 months preceding the date of these Listing Particulars, a material effect on the financial position of AWL, nor is AWL aware of any such proceedings being pending or threatened.

Instrument of Appointment Conditions and Regulatory Ring-Fencing

Regulatory ring-fencing is common to each of the regulated water companies in England and Wales pursuant to their respective instruments of appointment. Ring-fencing conditions ensure that regulated businesses are treated as separate from other businesses within a corporate group structure.

As part of the changes to the Instrument of Appointment made for the unification of VWC, VWE and VWSE, the relevant Instrument of Appointment was updated. This included updating provisions to reflect the combined 2013-2014 and 2014-2015 price limits, to prevent differing service levels for customers in the AWL Regions, to ensure separate information continues to be held for the three supply areas for comparative purposes and to clarify the fees position. In addition, the ring-fencing and Ultimate Controller provisions were updated to bring them in line with Ofwat's current standard. These changes were made with effect from 27 July 2012.

Current ring-fencing provisions in the Instrument of Appointment

The ring-fencing provisions contained in the Instrument of Appointment are broadly similar to those contained in the instruments of appointment of all other regulated companies. The most important provisions are contained in the Instrument of Appointment conditions F and K, summarised below:

- I *Transactions between AWL and its associated companies:* any transaction between AWL 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 AWL (or vice versa). In particular, AWL may not make any payments to an associated company in respect of services rendered where this exceeds an amount ascertained through market testing or as agreed with Ofwat.
- II *Restrictions on Dividend Payments:* AWL is required to only pay dividends in accordance with a policy that complies with the following principles:
 - such payments will not impair the ability to finance its regulated activities; and
 - the payment of such dividends is expected to reward efficiency and the management of economic risk.
- III *Adequate Resources:* AWL is required at all times to act in a manner best calculated to ensure that it has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out its regulated activities (including necessary investment programmes). The directors of AWL 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 AWL cannot be expected to comply with this obligation, they are to file a report to this effect to Ofwat in accordance with the provisions of the Instrument of Appointment.
- IV *Conducting the Appointed Business of AWL:* AWL (and its directors) are required to operate the regulated business as though it were substantially AWL's sole business and AWL was a separate public limited company. In particular, AWL should:
 - have an independent board of directors which will act independently of the parent company/controlling shareholders and exclusively in the interests of AWL;
 - ensure that all directors disclose any conflicts of interest both to AWL and Ofwat, and that AWL's articles of association prohibit a director from voting on any contract or arrangement or other proposal in which he has an interest by virtue of other directorships;

- ensure that, where a potential conflict between AWL and its corporate group arises, AWL and its board of directors has exclusive regard to AWL's interests as a regulated water undertaker;
 - notify Ofwat of all changes in board membership and their responsibilities; and
 - have a dividend policy which is adopted by the board of directors as outlined above.
- V *Limits on the transfer of certain assets to associated companies:* save with the express consent of Ofwat, AWL 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.
- VI *Restrictions on other transactions:* save with the express consent of Ofwat, AWL 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). There are limited exceptions relating to existing cross-default obligations.
- VII *Publishing of financial information:* AWL is required to publish such information about its annual and interim financial results as is required by the Listing Rules as if AWL were listed on the London Stock Exchange.
- VIII *Maintenance of a financial instrument listed on the London Stock Exchange:* AWL is required to maintain a financial instrument and shall use all reasonable endeavours to retain its listing on the London Stock Exchange.
- IX *Conducting the regulated business of AWL:* AWL (and its directors) is required to have regard to the FCA's Principles of Good Governance and Code of Best Practice required by the Listing Rules from time to time.
- X *Investment grade credit rating:* AWL (or any associated company) will be required to use reasonable endeavours to maintain an investment grade issuer credit rating. The issuer rating is intended to reflect the financial capacity of the Regulated Company and therefore its ability to raise capital or maintain access to liquidity in the future. Any significant adverse changes to the rating are intended to act as an early signal that the ability of the Regulated Company to raise future finance is at risk.
- XI *Cash lock-up:* A cash lock-up provision was introduced into Instrument of Appointment Condition F which prohibits, subject to certain limited exceptions, save with the express consent of Ofwat, the transferring, leasing, licensing or lending of any sum of cash or other assets to an associated company when AWL:
- no longer holds an investment grade rating, or
 - holds a rating at the minimum investment grade level and that rating has been put under review for possible downgrade or is assigned a negative outlook.
- XII *Ultimate Controller undertakings:* Instrument of Appointment Condition P requires AWL to secure legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK holding company, procure from the UK holding company that it (and each of its subsidiaries other than AWL and its subsidiaries) will:
- give AWL all such information as may be necessary to enable AWL to comply with the Instrument of Appointment;

- refrain from any action which might cause AWL to breach any of its obligations under the WIA or its Instrument of Appointment; and
- ensure that the board of directors of AWL contains not less than three independent non-executive directors, who must be persons of standing with relevant experience and who collectively have connections with and knowledge of the areas within which AWL provides water services and an understanding of the interests of the customers of AWL and how these can be respected and protected.

AWL must inform Ofwat immediately in writing if it becomes aware that the undertakings have ceased to be legally enforceable, or that there has been any breach of their terms. Further, save with the written consent of Ofwat, AWL must not enter (directly or indirectly) into any contract or arrangement with its Ultimate Controller or any associated company (other than subsidiaries of AWL) at a time when no such undertaking exists or there is an unremedied breach of such undertaking. For the purposes of the amended Condition P, “Ultimate Controller” means any person (including, without limitation, a corporate body) who or which (alone or jointly with others and whether directly or indirectly) is (in the reasonable opinion of Ofwat) in a position to control, or to exercise material influence over, the policy or affairs of the regulated business or of any holding company of the regulated business.

Directors and Company Secretary

The directors and company secretary of AWL are set out below, each of whose business address is Tamblin Way, Hatfield, Hertfordshire AL10 9EZ.

There are no potential conflicts of interest between any duties to AWL of its directors and their private interests or duties.

Directors

Chairman

Dr Philip Nolan

Dr Philip Nolan was appointed to the Board as Chairman in April 2013 and his role became non-executive on 1 April 2014. Philip is also Chairman of John Laing plc., a specialist investor, operator and manager of infrastructure assets and Ulster Bank Limited. He is also a non-executive director at Providence Resources plc. and EnQuest plc. He was previously Chief Executive of Eircom, Ireland’s national telecommunications supplier from 2002 to 2006. Prior to that, he served as an executive director of BG Group and Chief Executive of Transco from 1998 and in 2000, leading the demerger of Transco as Chief Executive of the Lattice Group.

Executive Directors

Duncan Bates

Duncan Bates is Chief Financial Officer of AWL, having been appointed in March 2012 and appointed to the Board in September of that year. He began his career in Veolia in 1992 and held a number of financial posts until his appointment as Veolia Environment UK’s Group Financial Controller in 1999. In 2007, he became Finance Director of Veolia Water UK’s non regulated business, a post he held until joining Affinity Water. He is a Fellow of the Chartered Institute of Management Accountants.

Richard Bienfait – Chief Executive Officer

Richard Bienfait is Chief Executive Officer and was appointed Managing Director of AWL in March 2010. He began his career at Veolia Water UK in 1997 as Group Financial Controller and joined the Board of Veolia Water UK and became Chief Financial Officer in 2004. He is a member of the Institute of Chartered Accountants and an associate member of the Association of Corporate Treasurers.

Independent Non-Executive Directors

Baroness Peta Buscombe

Baroness Peta Buscombe was appointed to the Board in 2006. Peta is a barrister, an active member of the House of Lords and has held a number of shadow ministerial positions including responsibility for industry and enterprise, regulatory reform, the media and education. Formerly Chairman of the Press Complaints Commission, she is a non-executive Director of Local World Limited, a member of the Human Rights Joint Committee, served on the Inquiries Act 2005 Committee and is Chairman of the Advisory Board for the Samaritans.

Dr. Jeffrey Herbert

Jeffrey Herbert was appointed to the Board in July 2012. Jeffrey was previously Chairman of Veolia Water East Limited. Jeffrey is an industrialist who has held Chief Executive Officer and Chairman roles for a number of large, international businesses in the automotive, mineral extraction and mechanical engineering sectors. His non-executive roles have included Chairman/Deputy Chairman in the retail, aerospace, investment and water sectors. He is a Fellow of the Royal Academy of Engineering.

Patrick O'D Bourke

Patrick O'D Bourke was appointed to the Board of AWL in July 2013. Patrick is a Chartered Accountant and is currently Group Finance Director of John Laing plc. He was previously Chief Executive of Viridian Group PLC, having first undertaken the role of Group Finance Director and formerly was Group Treasurer of Powergen plc. He chairs AWL's Audit Committee and has experience in regulated businesses operating within the private and quoted sectors.

Non-Executive Directors

Olivier Bret

Olivier Bret was appointed a director on 31 December 2013. He is Chief Executive Officer of Veolia Water UK Ireland and Northern Europe having joined the business in June 2008. He holds a number of directorships of companies within the Veolia Water group. Previously he was a director at executive consulting services firm DYDESYS and worked for four years at management consultants AT Kearney.

Antonio Botija

Antonio Botija was appointed a director in 2012. He joined Infracapital in 2009 as an Associate Director and is responsible for investment origination and execution. Prior to joining Infracapital, Antonio worked as Associate Director at the Infrastructure and Transport Group of UBS Investment Bank in London, where he was a financial adviser on infrastructure projects and transactions across many sectors including roads, railroads, airports, ports and airlines.

James Wilmott

James Wilmott was appointed a director in 2012 and is a member of the Remuneration Committee and Nomination Committee. He is a Managing Director and Head of Europe of Morgan Stanley Infrastructure and

is a director of European Rail Finance (GB) Limited, the Eversholt Rail Group and a number of companies affiliated with Morgan Stanley.

Kenton Bradbury

Kenton Bradbury was appointed a director in 2012 and is a member of the Audit Committee (chairing it until July 2013), Remuneration Committee and Nomination Committee. He is a Director of Infracapital and a number of companies in which Infracapital has invested including companies within the Zephyr Investments, Calvin Capital, Infracapital Solar and Falbygdens Energi groups of companies. Prior to joining Infracapital, he was Senior Vice President of Infrastructure and Regulation for E.ON based in Germany.

Yacine Saidji

Yacine Saidji was appointed a director in 2012. He is an Executive Director at Morgan Stanley Infrastructure focusing on European investing and holds directorships in the Madrileña Red de Gas group of companies. Prior to joining Morgan Stanley in 2006, he spent three years at McKinsey & Company advising clients in the energy sector.

Company Secretary

Tim Monod – Company Secretary

Tim Monod was appointed Company Secretary in December 2006. He is a solicitor, admitted to practise in England and Wales and has worked for AWL for over 17 years in a number of legal roles. In his current role, he is responsible for all legal and regulatory matters.

Company Structure as at the date of these Listing Particulars

The registered office of AWL is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. AWL is a wholly-owned direct subsidiary of AWHL and the authorised share capital of AWL is £26,505,782.40 divided into 265,057,824 ordinary shares. The issued share capital of AWL is £26,505,782.40 divided into 265,057,824 ordinary shares, all of which have been fully paid up. The Issuer and the Programme Issuer are the only subsidiaries of AWL (except for certain dormant companies). AWL's auditors are PricewaterhouseCoopers LLP whose address is Abacus House, Castle Park, Cambridge, CB3 0AN. PricewaterhouseCoopers LLP is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales.

Corporate governance

The primary object of AWL is to carry out the business of a regulated water undertaker.

The directors of AWL promote high standards of corporate governance and have due regard to the requirements of the Combined Code on Corporate Governance in so far as these are applicable to the circumstances of a privately owned group. Accordingly, the directors of AWL have established an audit committee, remuneration committee and nomination committee to help meet these requirements. AWL complies with the requirements of its Instrument of Appointment with respect to corporate governance and in particular with those of Condition P.

The board currently comprises nine non-executive directors of which three are considered to be independent with respect to Condition P of the Instrument of Appointment.

AWL is also subject to the provisions of the Companies Act 2006 and its statements of directors' duties.

The directors have adopted a formal schedule of matters specifically reserved for the board.

Directors have responsibility for AWL's system of internal controls and for reviewing its effectiveness. The board is responsible for reviewing the ongoing process for identifying, evaluating and managing the risks faced by AWL.

Affinity Water Holdings Limited

Introduction

AWHL was incorporated under the Companies Act 2006 and registered in England and Wales on 7 January 2013 with limited liability under number 08350099.

The registered office of AWHL is Tamblin Way, Hatfield, Hertfordshire AL10 9EZ. AWHL is a wholly-owned direct subsidiary of Affinity Water Capital Funds Limited and its authorised share capital is £2 divided into 2 ordinary shares. Its issued share capital is £2 divided into 2 ordinary shares, which have been fully paid up. AWHL is a special purpose vehicle set up as a holding company and its direct and indirect subsidiaries are AWL, the Issuer and the Programme Issuer, respectively. AWHL's auditors are PricewaterhouseCoopers LLP whose address is Abacus House, Castle Park, Cambridge, CB3 0AN. PricewaterhouseCoopers LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Directors and Company Secretary

The directors and company secretary of AWHL, each of whose business address is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ are:

| | |
|---------------------------|------------------|
| Directors: | Duncan Bates |
| | Richard Bienfait |
| | Antonio Botija |
| | Olivier Bret |
| | Kenton Bradbury |
| | Alberto Donzelli |
| | Yacine Saidji |
| Company Secretary: | Tim Monod |

Descriptions of their principal activities outside the Financing Group, if any, can be found above under "*Directors and Company Secretary*".

There are no potential conflicts of interest between any duties to AWHL of its directors and their private interests or duties.

The principal activity of AWHL is to hold the shares of AWL and to enter into documents incidental to the issue of Notes and the Programme.

AWHL is empowered under its memorandum and articles of association to enter into the transaction documents to which it is a party and its directors have authority under AWHL's articles of association to exercise that power on its behalf.

Affinity Water Programme Finance Limited

Introduction

The Programme Issuer, Affinity Water Programme Finance Limited was incorporated and registered in the Cayman Islands under the Companies Law (2012 Revision) on 11 January 2013 with limited liability under number 274647. The registered office of the Programme Issuer is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands. The Programme Issuer's authorised share capital is £10,000 divided into 10,000 ordinary shares of £1.00 each and its issued share capital is £10,000 divided into 10,000 ordinary shares of £1.00 each, all of which have been fully paid up.

The Programme Issuer is a wholly-owned direct subsidiary of AWL and a special purpose vehicle for the purpose of issuing asset backed securities. The Programme Issuer was established for the purposes of raising funds to support the long-term debt financing requirements of AWL. The Programme Issuer has no subsidiaries. The Programme Issuer's auditors are PricewaterhouseCoopers LLP whose address is Abacus House, Castle Park, Cambridge, CB3 0AN. PricewaterhouseCoopers LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Directors and Company Secretary

The directors and company secretary of the Programme Issuer, each of whose business address is, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ are:

| | |
|---------------------------|------------------|
| Directors: | Duncan Bates |
| | Kenton Bradbury |
| | Olivier Bret |
| | Richard Bienfait |
| | Antonio Botija |
| | Alberto Donzelli |
| | Yacine Saidji |
| Company Secretary: | Tim Monod |

Descriptions of their principal activities outside the Financing Group, if any, can be found above under section "*Directors and Company Secretary*".

There are no potential conflicts of interest between any duties to the Programme Issuer of its directors and their private interests or duties.

The Programme Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by AWL.

The Programme Issuer is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its directors have authority under the Programme Issuer's articles of association to exercise that power on its behalf.

Affinity Water Finance (2004) PLC

Introduction

Affinity Water Finance (2004) PLC (formerly known as Affinity Water Finance (2004) Limited, prior to which it was known as Affinity Water Finance (2004) PLC, prior to which it was known as Veolia Water Central Finance PLC and prior to that, Three Valleys Water Finance PLC) was incorporated under the Companies Act 1985 and originally registered in England and Wales on 27 May 2004 as a public limited company under number 05139236. The Issuer was reregistered as a public company on 4 July 2014.

The registered office of the Issuer is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. The Issuer's authorised share capital is £50,000 divided into 50,000 ordinary shares and its issued share capital is £50,000 divided into 50,000 ordinary shares, all of which have been fully paid up. Affinity Water Limited owns 50,000 shares. The Issuer was established as a special purpose vehicle. The Issuer was set up for raising funds to support the long-term debt financing requirements of AWL. The Issuer's auditors are PricewaterhouseCoopers LLP whose address is Abacus House, Castle Park, Cambridge, CB3 0AN. PricewaterhouseCoopers LLP is registered to carry out audit work of the Institute of Chartered Accountants in England and Wales.

Directors and Company Secretary

The directors and company secretary of the Issuer, each of whose business address is, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ are:

| | |
|---------------------------|------------------|
| Directors: | Duncan Bates |
| | Richard Bienfait |
| | Antonio Botija |
| | Kenton Bradbury |
| | Olivier Bret |
| | Alberto Donzelli |
| | Yacine Saidji |
| Company Secretary: | Tim Monod |

Descriptions of their principal activities outside the Financing Group, if any, can be found above under section "*Directors and Company Secretary*".

There are no potential conflicts of interest between any duties to the Issuer of its directors and their private interests or duties.

The Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by AWL.

The Issuer is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its directors have authority under the Issuer's articles of association to exercise that power on its behalf.

CHAPTER 6

REGULATION OF THE WATER INDUSTRY IN ENGLAND AND WALES

Water Regulation Generally

Background

The current structure of the water and sewerage industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. The industry is now (following recent acquisitions and licence unifications) made up of 10 water and sewerage companies and 12 water only companies which are Regulated Companies. There are five companies who have been appointed water and sewerage undertakers for certain specific sites within England and Wales under the arrangements for new appointments and variations. Eight companies have obtained water supply licences under the water supply licensing regime. 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 Flood and Water Management Act 2010, the Water Act 2014 and to a lesser extent by various other statutory provisions. References in this section to statutes are to the WIA unless otherwise stated.

Regulatory Framework

The activities of Regulated Companies are principally regulated by the provisions (as amended) of the WIA and the regulations made under this Act and the conditions of their licences (also referred to as “**Instruments of Appointment**”). Under the WIA, the Secretary of State for the Environment 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 for the Environment or in accordance with a general authorisation given to Ofwat.

Ofwat is the economic regulator for water and sewerage and is responsible for, *inter alia*, 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, financial and performance information) to enable Ofwat to assess their activities and affairs.

The two principal quality regulators are the DWI (the DWI is appointed by the Secretary of State for the Environment) and the EA. The DWI's principal task is to ensure that Regulated Companies in England and Wales are fulfilling their statutory requirements under the WIA and the Water Regulations for the supply of wholesome drinking water. The DWI carries out technical audits of each water undertaker; this includes an assessment of the quality of water supplied, arrangements for sampling and analysis, and progress made in delivering schemes to improve water quality. The EA 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 AWL or on land affected by AWL's wider operations) regulated by Natural England, DEFRA and the EA.

Ofwat and the Secretary of State for the Environment

Each of the Secretary of State for the Environment 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:

- (a) further the consumer objective;
- (b) ensure that the functions of Regulated Companies are properly carried out throughout England and Wales;

- (c) ensure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions; and
- (d) ensure that the activities authorised by the licence of a licensed water supplier and any statutory functions imposed on it are properly carried out.

The consumer objective is to protect the interests of consumers, wherever appropriate, by promoting competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services.

The Water Act 2014 has amended the WIA to give Ofwat a new primary statutory duty, namely “to further the resilience objective”. The resilience objective is (broadly) to secure the long-term resilience of water undertakers’ supply systems as regards environmental pressures, population growth and changes in consumer behaviour. Further duties relating to the market reforms are also introduced.

Instruments of Appointment

General

Under the WIA, each Regulated Company holds an Instrument of Appointment and is regulated through the conditions of such instrument of appointment as well as the WIA. Each instrument of appointment specifies the geographic area served by the company and imposes a number of conditions on the instrument of appointment 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 section “*Economic Regulation*” below), each instrument of appointment 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 instrument of appointment 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 wholesale water supplies; and payments to customers for supply interruptions because of drought. Ofwat is responsible for monitoring compliance with the Instrument of Appointment Conditions and, where necessary, enforcing compliance through procedures laid down in the WIA.

Termination of an Instrument of Appointment

There are certain circumstances provided for in the WIA under which a Regulated Company could cease to hold an instrument of appointment 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 holder of the instrument of appointment;
- (b) under condition O of an instrument of appointment, where the Secretary of State for the Environment has given the Regulated Company at least 25 years’ notice and that period of notice has expired;
- (c) under the provisions of the Special Administration regime, the Special Administrator may transfer the business and instrument of appointment to a successor (see section “*Special Administration Orders*” below); or
- (d) by the granting of an “inset” appointment over part of a Regulated Company’s existing appointed area to another Regulated Company (see section “*Competition in the Water Industry*” below).

Before making an appointment or variation replacing a Regulated Company, Ofwat or the Secretary of State for the Environment must consider any representations or objections made. Where the Secretary of State for the Environment 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 for the Environment 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.

Modification of an Instrument of Appointment

(a) Regulatory landscape

Conditions of an instrument of appointment may be modified in accordance with the procedures laid down in the WIA. Subject to a power of veto by the Secretary of State for the Environment of certain proposed modifications, Ofwat may modify the conditions in an instrument of appointment with the consent of the Regulated Company concerned. Before making the 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 secure a modification is following a modification reference to the CMA (although it is also possible for primary legislation to confer on Ofwat the power to modify the instrument of appointment of a Regulated Company, this has only to date occurred in relation to Conditions R & S). A modification reference may also be required in the event of a direction from the Secretary of State for the Environment to the effect that, *inter alia*, in his view, the modifications should only be made, if at all, following a reference to the CMA.

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 instrument of appointment. 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 for the Environment 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 instrument of appointment. If the CMA so concludes, Ofwat must then make such modifications to the instrument of appointment as appear to it necessary to remedy or prevent the adverse effects specified in the report whilst 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.

In April 2009, DEFRA put forward the Flood and Water Management Bill containing a proposal to introduce a new way of modifying the instrument of appointment conditions whereby Ofwat could make changes to all standard conditions of appointment of Regulated Companies where a certain proportion of the companies (to be specified in an order) agreed to the change. Although these provisions were not ultimately included in the Flood and Water Management Act 2010, the previous Government signalled its intention to bring forward new legislation for these provisions at a later date. Section 55 of the Water Act 2014 allows Ofwat to modify conditions where such a modification is

considered necessary or expedient as a consequence of amendments made by the Water Act 2014 (see section “*Regulatory Developments – Water Act 2014*” below).

The CMA (and the Secretary of State for the Environment in certain circumstances) also has, among others, the power to modify the conditions of the Instrument of Appointment after an investigation under its merger or market investigation powers under the Enterprise Act if it is concluded that matters investigated in relation to water or sewerage services broadly were anti-competitive or, in certain circumstances, against the public interest.

(b) *Recent modifications to the instrument of appointment*

After consultation with all water companies, Ofwat has made amendments to Conditions A, B and C of AWL’s Instrument of Appointment which have been effective since 22 July 2013. Condition B provides the legal mechanism for the five yearly price review, interim price reviews and references to the CMA. The main purpose of the changes is to allow Ofwat to set separate price controls for retail and wholesale activities. Wholesale prices will be set as before, according to the RPI plus “K” formula and will be reviewed at five yearly intervals. However, retail price control will be much more flexible. Ofwat will be able to set a number of retail price controls and determine the appropriate nature, form and level of each retail price control. Retail price controls can also be set for differing periods, but for no longer than five years. The changes have required minor changes to Conditions A (Interpretation) and C (Infrastructure Charges). In addition, there are some transitional provisions to cover the interim period before 2015.

In February 2014 (with effect from 1 March 2014) Ofwat amended Condition N (Fees) of AWL’s Instrument of Appointment which places an upper limit on the fees which Ofwat can charge. The amendments to Condition N raised the cap on the maximum amount of fees that Ofwat may recover from AWL in respect of extra costs incurred by Ofwat in carrying out the 2014 price review.

Enforcement Powers

The general duties of Regulated Companies as water or wastewater undertakers are enforceable by the Secretary of State for the Environment or Ofwat or both. The conditions of the Instrument of Appointment (and other duties) are enforceable by Ofwat alone whilst 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 for the Environment (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, a condition of its instrument of appointment or a relevant statutory or other requirement, either the Secretary of State for the Environment 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 for the Environment or Ofwat that it would be more appropriate to make a provisional Enforcement Order, that party may do so. In determining whether a provisional Enforcement Order should be made, the Secretary of State for the Environment 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 for the Environment 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 for the Environment’s and Ofwat’s duty to make an Enforcement Order or to confirm a provisional Enforcement Order:

- (a) where the contraventions were, or the apprehended contraventions are, of a trivial nature;

- (b) 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; or
- (c) where duties in the WIA preclude the making or confirmation of the order.

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 instrument of appointment provisions).

The Water Act also conferred powers on Ofwat or the Secretary of State for the Environment to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act. Ofwat and the Secretary of State for the Environment have the power to fine such a company up to 10 per cent. of its turnover if it has failed or is continuing to fail to comply with the conditions in its Instrument of Appointment, standards of performance or other obligations. The time limit for imposing such financial penalties has recently been extended by the Water Act 2014 from 12 months to 5 years. A penalty may not be imposed later than this 5 year period 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 3 months of the final order or confirmation of the provisional order, or within 6 months of the provisional order if it is not confirmed.

Special Administration Orders

(a) Circumstances

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

- (i) where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide sewerage 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 instrument of appointment;
- (ii) where the Regulated Company is, or is likely to be, unable to pay its debts;
- (iii) where, in a case in which the Secretary of State for the Environment 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 an instrument of appointment; and
- (iv) where the Regulated Company is unable or unwilling to adequately participate in arrangements certified by the Secretary of State for the Environment or Ofwat to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination or variation of the existing Regulated Company's instrument of appointment.

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 the Regulated Company were not a company holding an instrument of appointment, 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. Whilst a Special Administration Order is in force, those restrictions imposed during the Special Administration Petition Period continue with some modification: 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 section “*Restrictions on the Enforcement of Security – 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, but with certain important differences. He is appointed for the purposes of transferring to one or more different Regulated Companies as a going concern, so much of the business of the Regulated Company as is necessary to ensure 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. Where a company is in Special Administration as a result of an order made on the grounds that the company is or is likely to be unable to pay its debts, the Special Administrator is appointed for the purpose of rescuing the company as a going concern, and the transfer purpose applies only if the Special Administrator thinks that it is not likely to be possible to rescue the company as a going concern, or that transfer is likely to secure more effective performance of the company’s 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 creditors and members. However, the effect of other provisions of the WIA is ultimately to subordinate creditors’ and members’ 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. 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). A transfer can also be effected through a hive-down process, by transferring all or part of the company’s undertaking to a wholly-owned subsidiary of the company, and then transferring securities in the subsidiary to another company. The powers of a Special Administrator include, as part of a Transfer Scheme, the ability to make modifications to the instrument of appointment of the existing Regulated Company, subject to the approval of the Secretary of State for the Environment 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. To take effect, the Transfer Scheme must be approved by the Secretary of State for the Environment or Ofwat. In addition, the Secretary of State for the Environment 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 for the Environment, with the approval of HM 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.

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 for the Environment. A consent or authorisation may be given on such conditions as the Secretary of State for the Environment 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. Condition K of AWL's Instrument of Appointment 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. Protected Land comprises any land, or any interest or right in or over any land, which:

- (a) 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;
- (b) is being, 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 sewerage functions; or
- (c) 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 for the Environment, all disposals of Protected Land must comply with Condition K of the instruments of appointment of Regulated Companies. 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, the purposes of the Special Administration regime and the restrictions on enforcement of security thereunder) and of Condition K of its instrument of appointment, a Regulated Company would not expect to obtain the consent of the Secretary of State for the Environment or Ofwat to the creation of any security over its Protected Land.

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 instrument of appointment. For example, the WIA restricts a Regulated Company's ability to dispose of Protected Land (as explained in the section "Protected Land" above). Accordingly, its instrument of appointment restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

In addition, provisions in a Regulated Company's instrument of appointment 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 further limit the ability of a Regulated Company to grant security over its assets, in particular assets required for carrying out the Appointed Business, and limit 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 for the Environment and Ofwat. If a petition for Special Administration has been presented, leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if an administrative 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 section "*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, *inter alios*, the Secretary of State for the Environment, 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.

(c) *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, *inter alia*, 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 is based on a system of five-year price controls (determined by the Periodic Reviews), imposed on the amounts of revenue Regulated Companies can recover from their customers. This is intended to reward companies for efficiency and quality of service to customers. The system was intended generally to allow companies to retain for a period any savings attributable to efficiency, thus creating incentives to make such gains. The current framework (set out below) will continue to be enforced up until 31 March 2015. Following consultation with stakeholders, Ofwat published its final methodology for setting price limits after that date (see section "*Regulatory Developments – Changes to Ofwat's approach to future price controls*" below).

AMP5 Framework

K Price Limitation Formula

The main instrument of economic regulation is the price limits set out in the conditions of the instrument of appointment. These limit increases in a basket of standard charges made by Regulated Companies for water supply and sewerage services. The weighted average charges increase is limited to 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

judgment as to the scope for it to improve its efficiency. As such, it may be a different number in different years.

Regulatory Capital Value

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying price limits set at Periodic Reviews, being the value of the capital base of the relevant Regulated Company for the purposes of calculating the return on capital element of the determination of K. The regulatory capital value is indexed annually by RPI. In addition, Ofwat's projections of regulatory capital value take account of the assumed net capital expenditure in each year of a Periodic Review Period.

Capital Expenditure Incentive Scheme

At PR09, Ofwat introduced an incentive mechanism for capital expenditure – the “CIS”. Under the CIS, Regulated Companies recover their actual capital expenditure for specific outputs, plus or minus revenue rewards or penalties that depend on how closely their expenditure forecasts compare to Ofwat's expectations and the Regulated Company's expenditure.

The CIS allows for treatment of capital expenditure over-spends and under-spends. This means that if a Regulated Company chooses to spend more than Ofwat's expenditure forecast, over-spends of capital expenditure will be reflected in the RCV of the business following the next Periodic Review, but this will also result in lower outperformance incentives and reduced returns.

Revenue Correction Mechanism

The primary purpose of the revenue correction mechanism (“**Revenue Correction Mechanism**”) is to remove companies' ability to over or under recover tariff basket revenue relative to volumetric and growth assumptions made at the price review. Actual turnover will be driven primarily by key physical factors such as metered volumes, metering programmes and new property growth. These will depend on external factors such as the weather, economic growth and customer behaviour. The Revenue Correction Mechanism makes an adjustment in the next AMP Period, based on actual turnover compared to the Final Determination turnover assumption (adjusted for inflation).

Under or over recovery of revenue is calculated for each year of the current AMP Period with the cumulative impact being adjusted in K over each year of the next AMP Period.

Bulk Supply Charges

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual “special” arrangements, or with standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and charges in respect of infrastructure provision and, where these are not in accordance with standard charges, charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent. Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger non-domestic water supplies. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply. The Water Act 2014 has given Ofwat certain new powers to develop enforceable codes for bulk supply and sewerage connection agreements (see “*Regulatory Developments – Water Act 2014*” below).

Periodic Reviews of K

K factors are currently determined at Periodic Reviews. The average K factor for the Periodic Review up to 31 March 2015 for AWL is: -1.2 per cent. per annum in respect of the AWL Central Region, -1.1 per cent. per annum in respect of the AWL East Region and +0.9 per cent. per annum in respect of the AWL Southeast Region.

Interim Determinations of K

Condition B of a Regulated Company's instrument of appointment provides for Ofwat to determine in certain circumstances whether, and if so how, K should be changed between Periodic Reviews. The procedure for IDOK can be initiated either by the Regulated Company or by Ofwat. An application for an IDOK may be made in respect of a Notified Item, a Relevant Change of Circumstance or where there has been a substantial adverse or favourable effect on the delivery of regulatory outputs.

(a) Notified Item

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 K, provided that there has been no Periodic Review subsequent to that notification. Notified Items put forward by Ofwat in the determination of price limits for the Regulated Companies in the AMP5 Period are:

- (i) increases in household bad debt and debt management costs resulting from worsening economic conditions in the company's operating area;
- (ii) increases in the environmental improvement unit charge component of abstraction charges above RPI to cover the compensation costs associated with the EA's Restoring Sustainable Abstraction programme;
- (iii) increased costs necessary to balance water supply and demand based on companies' application of DEFRA's UK 2009 climate projections data and appropriate analytical tools and processes; and
- (iv) costs associated with the impact of the introduction of permit schemes made pursuant to the Traffic Management Act.

(b) Relevant Change of Circumstances

A "Relevant Change of Circumstances" ("**Relevant Change of Circumstances**") is defined in the instrument of appointment of each Regulated Company. The following costs are expected to qualify for Relevant Change of Circumstances:

- (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 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; and
- (iii) Where, on a determination of K, 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 (i) 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 (ii) the stated purpose has not otherwise been achieved.

An IDOK takes account of the costs, receipts and savings to be included in the computation of K which are reasonably attributable to the Notified Items or the Relevant Change of Circumstances in question and are not recoverable by charges outside the K price limitation formula. The amount and timing of the costs, receipts and savings must be appropriate and reasonable for the Regulated Company in all the circumstances and they must exclude trivial amounts, any costs which would have been avoided by prudent management action, any savings achieved by management action over and

above those which would have been achieved by prudent management action, and any amounts previously allowed for in determining K. These costs are then netted off against the receipts and savings to determine the annual cash flows thereof for each year included in the period over which the costs are to be measured (“**Base Cash Flows**”).

In relation to AWL’s Instrument of Appointment:

- (i) Ofwat guidance sets out that in respect of the triviality threshold each Notified Item must equal at least 2 per cent. of service turnover; and
- (ii) The materiality threshold will only be reached where the sum of the net present values is equal to at least 10 per cent. of the latest reported service turnover attributable to the Regulated Company’s water and sewerage business,

in each case calculated on the basis of net present values of (x) Base Cash Flows consisting of operating expenditure and/or loss of revenue calculated over 15 years and (y) other Base Cash Flows calculated over the period to the next Periodic Review. An adjustment to K (which may be up or down) is then calculated on the basis of a formula broadly designed to enable the Regulated Company to recover the additional allowable costs incurred or to be incurred during the period until the start of the first charging year to which the next Periodic Review applies and attributable to the identified Base Cash Flows. The change is then made for the remainder of the period up to the start of that first charging year. Condition B of the instrument of appointment sets out in detail the step-by-step methodology which Ofwat is required to apply.

(c) *Shipwreck Clause*

In addition, under the Shipwreck Clause in the instrument of appointment 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. AWL has a Shipwreck Clause in its Instrument of Appointment.

On 25 October 2013, Ofwat published an informal consultation into whether it should launch a substantial favourable effects IDOK against Thames Water Utilities Limited (“**TWUL**”), primarily on the basis of (i) a lower than expected cost of capital and (ii) changes to the calculation of RPI. In the consultation document, Ofwat made it clear that it considered its proposal to investigate only TWUL using the substantial favourable effects mechanism “proportionate and targeted”, because TWUL had applied for a separate IDOK based on a combination of Notified Items and Relevant Change of Circumstances, making TWUL the only Regulated Company to apply for a price increase during AMP5 Period. After TWUL decided not to appeal against Ofwat’s determination of 8 November 2013 which rejected TWUL’s application, Ofwat decided not to pursue a substantial favourable effects IDOK against TWUL.

Based on the above, it cannot be ruled out that Ofwat will respond to IDOK applications by other Regulated Companies such as AWL by using, or threatening to use, the substantial favourable effects mechanism.

Other Restrictions on Charging

Under the WIA, Regulated Companies must charge for water supplied, or sewerage services provided, to dwellings in accordance with a charges scheme. The Water Act 2014 has recently removed the requirement

that an undertakers' charges scheme does not take effect unless approved by Ofwat. Regulated companies will however be required to adopt their charges schemes in accordance with rules to be prescribed by Ofwat. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

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 for the Environment 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 company to refer its PR09 Final Determination to the CMA. The CMA took over the functions described in this paragraph from the Competition Commission on 1 April 2014.

Environmental Regulation

The activities of Regulated Companies are affected both by the requirements of EU directives which provide a common framework for stewardship of the environment and social considerations and national and local level legislation and regulation. The European Court of Justice 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. Such EU directives include the Water Framework Directive (2000/60/EC) (the "**Water Framework Directive**"), which is discussed below.

Water Framework Directive

The Water Framework Directive 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 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. The Water Framework Directive is set out over three "six-year" cycles, the first of which commenced in December 2009 with the publication of plans which include lists of measures that Regulated Companies and other parties will need to undertake to achieve the objectives of the Water Framework Directive. A small tranche of measures specific to the Water Framework Directive have been agreed with the EA through the Periodic Review process for 2010–15, although there remains a risk of additional, unfunded, investment requirements in this period. It is expected to have a significant impact on Regulated Companies in the longer term, particularly after 2015. For example, it may result in increased limitations on abstraction licences and a restriction on discharge consents, which 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 moderate risk that substantial investment could be required within Periodic Review periods, to be funded through IDOK or a similar mechanism. To comply with the Water Framework Directive, Member States will 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.

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').

Competition in the Water Industry

General

Each Regulated Company effectively holds a geographic monopoly within its appointed area for the provision of water services or water and sewerage 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.

The current main methods for introducing competition (see also “*Regulatory Developments – Water Act 2014*” below) are:

- (a) inset appointments which allow one company to replace another as the statutory undertaker for water or sewerage services in a specified geographical area within the other Regulated Company’s appointed territory. An inset appointment can be granted to a company seeking to provide water and/or sewerage services on an unserved site, or in respect of a site with water and/or sewerage services within an existing Regulated Company’s area where 50 megalitres of water are supplied or likely to be supplied to particular premises in any 12-month period or where the incumbent Regulated Company consents to the variation. The inset mechanism continues alongside the regime for licensing new entrants under the Water Act;
- (b) 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;
- (c) water supply licence (retail) – when a holder of a water supply licence purchases wholesale supplies of water from the existing water undertaker and supplies water to a customer’s eligible premises (i.e. using more than 5 megalitres per annum). The Water Act introduced a statutory framework for such licences. Regulated Companies have published indicative access prices, based on the “cost principle” which indicate the approximate scale of discount they would offer to licensees. The threshold was recently reduced from 50 megalitres per annum (see section “*Regulatory Developments*” below);
- (d) water supply licence (combined) – when a holder of a water supply licence introduces water into the supply system and supplies 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 under which licensees may introduce water into their networks; and
- (e) cross-border supplies (raw/treated water) 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.

Merger Regime

The CMA, which took over the competition functions of the OFT (which previously carried out first phase reviews) and the CMA (which carried out second phase investigations from 1 April 2014), has a duty to refer for a second phase investigation, mergers or proposed mergers between two or more water enterprises where the value of the turnover of the water enterprise being taken over, or the value of the turnover of each of the water enterprises belonging to the person making the takeover, exceeds £10 million. In determining whether such a matter 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. Remedies may be structural (total or partial prohibition of a proposed merger; total or partial divestiture of the acquired water enterprise; or divestiture of another water company held by the acquiring company) or behavioural, such as amendments to a Regulated Company’s instrument of appointment (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 of the merger on the ability of Ofwat to make comparisons.

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 for a second phase 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 for the Environment, in certain limited circumstances, may also refer a merger to the CMA for a second phase 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 merger regime.

The Water Act 2014 makes 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 second phase investigation and, in the event that it determines a water merger should be referred for a second phase investigation, may accept undertakings in lieu of a reference. Furthermore, the Water Act 2014 also imposes a new duty on the CMA to keep under review and advise the Secretary of State for the Environment on both the £10 million threshold and the conditions under which the CMA must refer water mergers.

Regulatory Developments

Water White Paper

On 8 December 2011, the Government published a White Paper, “*Water for Life*” (the “**Water White Paper**”). The key themes of the Water White Paper include resilience and long term planning to address challenges arising from climate change and population growth and to increase competition in the water sector. Proposals for achieving the latter centred on increasing choice for non-household consumers through both the extension of the WSL regime (see section “*Water Supply (Amendment to the Threshold Requirement) Regulations 2011*” below), and a proposal to introduce self-supply licences enabling “suitably qualified” large customers to purchase water in the wholesale market. However, the Government has stated that it “does not believe there is a case in the foreseeable future for opening up the household market to competition”.

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.

Water Supply (Amendment to the Threshold Requirement) Regulations 2011

As part of the Government’s plans to increase the size of the water supply licensing market, on 15 December 2011, the Water Supply (Amendment to the Threshold Requirement) Regulations 2011 came into force. These reduced the non-household consumer threshold in the water supply licensing regime from 50 megalitres per annum to 5 megalitres per annum, which meant that holders of water supply licences were permitted to supply

customers using in excess of 5 megalitres per annum. Under the Water Act 2014, this threshold has been reduced to zero.

Water Act 2014

To implement some of the plans in the Water White Paper, the Water Bill was published and the Water Act 2014 passed into law on 14 May 2014. The measures in the Water Act 2014 are designed, among other things, to introduce greater clarity within the special merger regime, amend legislation in order to remove barriers to effective competition, reform the handling of new appointees and of existing appointees involved in the inset process, improve Ofwat's existing enforcement tools and to reduce the bureaucracy around water companies' charges scheme to promote greater innovation.

The Water Act 2014 includes provisions for, among other things:

- (i) facilitating bulk supply agreements and mains connections agreements, revising and extending the rules relating to charges imposed by water undertakers including requiring undertakers to act in accordance with codes developed by Ofwat when negotiating agreements. The new rules on bulk supply agreements will apply to agreements made before the coming into force of the Act;
- (ii) modernising Ofwat's regulatory powers to allow it to continue to regulate the industry in the interests of consumers and extending the scope of the Environmental Permitting regime to include water abstraction and impounding licences and 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 facilitating the creation of a cross-border retail market between England & Wales and Scotland;
- (iv) empowering the Secretary of State for the Environment to set up a body to regulate a flood insurance scheme for household premises, following a DEFRA consultation paper in November 2013;
- (v) introducing changes to the general regulation of the water industry, for example, providing for a new statutory "resilience objective" of Ofwat to secure that water and sewerage undertakers take steps for the purpose of enabling them to meet, in the long term, the need for the supply of water and the provision of sewerage services to consumers including by promoting appropriate long-term planning and investment by relevant undertakers;
- (vi) enabling the Secretary of State for the Environment 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 after the breach (currently 12 months);
- (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 for the Environment, see "*Instruments of Appointment – Modification of an Instrument of Appointment*" above); and
- (ix) reforming the special water merger regime (see "*Competition in the Water Industry – Merger Regime*" above).

Open Water Programme

The Water Act 2014 enables the creation of a new market for retail water and sewerage services to all non-household customers in England. The “**Open Water Programme**” has been created to develop a programme to deliver the required market reforms to allow the non-household retail market to be opened on 1 April 2017. Further market reforms and the introduction of competition into upstream activities are under consideration for implementation beyond 2019.

The Open Water Programme has been established and governed by a ‘high level group’ comprising representatives from Defra, Ofwat, the Water Industry Commissioner for Scotland, water companies, new entrants and business customers. Open Water Market Limited (“**OWML**”) was incorporated as a company limited by guarantee in early 2014 to support the Open Water Programme. AWL became an industry-funding member of OWML on 2 May 2014.

In April 2014, Ofwat consulted AWL on its plans to introduce a new temporary licence condition (Condition R1: Open Water Programme) to provide funding for the work of OWML, such that it can deliver the infrastructure and detailed proposals required for the new retail market in advance of the establishment of an enduring market operator for the market. If Condition R1 were to be introduced as a condition of AWL’s Instrument of Appointment in the form discussed with AWL, it would require AWL, for each year up to and including 2016/17, to provide temporary funding for OWML being an annual percentage of OWML’s total annual budget (not exceeding £10.5m in total) calculated as AWL’s percentage share of its total market share (defined as all appointees operating wholly or mainly in England (except small companies)).

Changes to Ofwat’s approach to price controls for AMP6

As noted above, on 25 July 2013, Ofwat published the Ofwat Final Methodology which sets out Ofwat’s methodology (including the overall framework and timetable) for setting price controls for the AMP6 Period. These changes include, amongst other things, the following:

- (i) instead of a single price control covering all water companies’ activities separate price controls will be set for water wholesale, wastewater wholesale, household retail and non-household retail activities;
- (ii) existing RCV will be entirely allocated to the wholesale price control, which will continue to be indexed to RPI using an $RPI \pm K$ approach (see “Economic Regulation – K Price Limitation Formula” above);
- (iii) the retail price controls will not be indexed to RPI and will incorporate net margins;
- (iv) a requirement to develop and propose outcomes and performance commitments which reflect the views of customers. Companies are expected to propose associated ODIs together with related penalties or rewards. See Chapter 5 “Description of the Financing Group – PR14 Business Plan, Enhanced Status and AWL AMP6 Draft Determination” for the ODIs developed by AWL against its performance commitments, taking into account its customers’ priorities.

The licence amendments necessary to effect the Ofwat Final Methodology were accepted by all the Regulated Companies and came into effect on 22 July 2013 (see “*Modification of an Instrument of Appointment – Recent Modifications to the instrument of appointment*” above).

Business Plan Submissions

As part of the Ofwat Final Methodology, Ofwat stated that it would conduct a risk-based analysis of the various water companies and would then allocate each companies’ submissions to one of three categories: “enhanced”, “standard” or “re-submission” with companies whose plans are categorised as “enhanced” benefitting from an earlier draft determination and a reduced level of scrutiny of their plan.

AWL submitted its business plan to Ofwat on 2 December 2013 setting out its plans for 2015 to 2020. The business plan reflected the expectations of the company's customers, the service levels they seek, and at a price which they are willing to pay. The plan covered AWL's planned investment in water quality improvements and investment to ensure it has sufficient availability of water resources in its area to satisfy demand from its customers today and in the future.

Following a review of the companies' business plans, Ofwat announced on 10 March 2014 that only AWL and South West Water had pre qualified for "enhanced status". On 17 March 2014, AWL accepted Ofwat's risk and reward guidance, including the cost of capital and committed to a limited number of changes to improve its business plan. Ofwat confirmed AWL's enhanced status on 4 April 2014.

On 30 April 2014, Ofwat published AWL's Draft Determination setting out the proposed price controls for AWL. Owing to AWL's "enhanced status", this largely reflects AWL's business plan and forecasts. Ofwat will take into account further submissions before it publishes its final determinations in December 2014. The timeline for consultation on the AWL Draft Determination ended on 4 June 2014.

PRI4 Ofwat financial model and Financial Ratios

As part of the Ofwat Final Methodology, Ofwat also announced certain changes to the principles adopted in its financial modelling for the AMP6 Period.

Two accounting measures, which will no longer be used by Ofwat and therefore will not be "published" numbers in the Final Price Determination, are: (i) the 'current cost depreciation' charge (CCD) which applied to above-ground assets, such as treatment works; and (ii) the 'infrastructure renewals charge' (IRC) which applied to underground assets, such as pipes, owing to Ofwat's new "simplified depreciation approach" based on totex.

CCD and IRC both feed into AWL's Financial Ratios (namely, the Senior Adjusted ICR, Senior Average Adjusted ICR, Class A Adjusted ICR and Class A Average Adjusted ICR) (see "*Common Terms Agreement – Financial Covenants – Financial Ratios*"). As set out under "*Common Terms Agreement – Covenants – Information Covenants*", AWL is required to deliver with each Compliance Certificate and Investor Report, a statement as to what the historical and forward-looking Financial Ratios calculated as at the most recent Calculation Date are, together with a copy of the computations made in respect of the calculation of such Financial Ratios.

In respect of calculations for the AMP6 Period, AWL has and will calculate and report the relevant Financial Ratios by inputting IRC and CCD as zero. AWL will input "equivalent" measures into the calculations for illustrative purposes only to assist investors with drawing comparisons notwithstanding the discontinuation of the IRC and CCD measures.

Financial structuring monitoring regime

Ofwat also announced in the Ofwat Final Methodology that it intends to introduce a financial structure monitoring regime to assess (i) the sector's financial resilience and (ii) the risks to customers posed by the companies financial structures and to identify whether (and when) it might be appropriate for Ofwat to intervene to protect customers. Ofwat intends to consult further on the regime in the coming year.

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 WIA introduced the independent CCW, whose role is to provide information of use to consumers and to promote the interests of all water consumers. CCW operates through five regional committees, which typically meet monthly and comprise a chair and about ten members.

Service Incentive Mechanism

Ofwat introduced the SIM customer performance assessment in AMP5 which replaced its overall performance assessment measure. The SIM is designed to focus on the quality of customer service and the customer experience of contact with companies.

Ofwat began to measure SIM from 1 April 2010, when new price limits took effect, although the results from 2010/11 were not used to derive financial incentives.

Any adjustments for SIM during AMP5 are reflected in adjustments to allowed revenue in AMP6.

Guaranteed Standards Scheme

The guaranteed standards scheme is underpinned by regulations made under sections 38(2) to (4), 95(2) to (4) and section 213 of the WIA, which prescribe standards of performance in matters such as the keeping of appointments with customers, dealing with enquiries and complaints from customers, giving notice of interruption of supply and installation of meters.

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 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.

CHAPTER 7 OVERVIEW OF THE FINANCING AGREEMENTS

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the Financing Group (the “**Intercreditor Arrangements**”) are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors and the Subordinated Creditors and each of the Obligors.

The Secured Creditors will include the Additional Secured Creditors that accede to the STID. Any new Authorised Credit Provider will be required to accede to the STID and the CTA.

Unsecured creditors (other than the Subordinated Creditors) may not become parties to the Intercreditor Arrangements and, although ranking behind the Secured Creditors in an administration or other enforcement as a matter of law, will have unfettered independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness is restricted under the CTA.

The purpose of the Intercreditor Arrangements is to regulate, among other things (i) the claims of the Secured Creditors and the Subordinated Creditors; (ii) the exercise, acceleration and enforcement of rights by the Secured Creditors; (iii) the procedures by which the Secured Creditors can instruct the Security Trustee to exercise certain rights or take certain steps in respect of the Common Documents and to regulate their rights in respect of a Standstill (see section “*Standstill*” below); (iv) the rights of the Secured Creditors to instruct the Security Trustee; (v) the Discretion Matters, the Entrenched Rights and the Reserved Matters of the Secured Creditors and the Enhanced Rights Matters; and (vi) the giving of consents and waivers and the making of modifications to the Common Documents.

The Intercreditor Arrangements also provide for the ranking in priority of payment of the claims of the Secured Creditors, both before and after any enforcement of the Security, and for the subordination of all claims of Subordinated Creditors or claims among the Financing Group (other than claims in respect of the Programme Issuer/AWL Loan Agreements and the Issuer/AWL Loan Agreements) funded through Senior Debt. Each Secured Creditor (other than the Security Trustee acting in such capacity) and each Obligor give certain undertakings in the STID which serve to maintain the integrity of these arrangements.

In the Finance Documents, the Issuer is defined as the “**Existing Issuer**”, the Notes are defined as the “**Existing Issuer Bonds**” and the Trust Deed is defined as the “**Existing Issuer Bond Trust Deed**”. References in this section to those terms should be construed accordingly.

Modifications, Consents and Waivers

The Transaction Agent is entitled to request the Security Trustee to concur in making any modification, giving any consent or granting any waiver under or in respect of any Common Document. Any such proposal or request will constitute a “**STID Proposal**”.

STID Proposal

Each STID Proposal shall be by way of notice in writing to the Security Trustee and shall certify whether such STID Proposal:

- (i) is in respect of a Discretion Matter, a Voting Matter or an Enhanced Rights Matter; and
- (ii) whether it gives rise to an Entrenched Right.

Where a STID Proposal gives rise to an Entrenched Right, it shall specify the Secured Creditors in whose favour (in the reasonable opinion of the Transaction Agent) such STID Proposal gives rise to an Entrenched Right or who are affected by such Entrenched Right and as such whose consent is required for such modification, consent and/or waiver.

STID Voting Request

The STID Voting Request will contain detailed provisions for raising objections to a matter determination made by the Transaction Agent in any STID Proposal as to whether such STID Proposal gives rise to a Voting Matter and/or gives rise to an Entrenched Right.

Discretion Matters

The Security Trustee, following receipt of a STID Proposal from the Transaction Agent may (but is not obliged to) and subject to Entrenched Rights, without the consent or sanction of any other Secured Creditor, as requested by the Transaction Agent by way of STID Proposal, concur with the Transaction Agent and any other relevant party in any proposed modification to, or give any consent or grant any waiver under or in respect of, any term of any Common Document to which the Security Trustee is a party or over which it has Security under the Security Documents if:

- (i) in the opinion of the Security Trustee, it is required to correct a manifest error or it is of a formal, minor, technical or administrative nature; or
- (ii) such modification, consent or waiver is not, in the opinion of the Security Trustee (having regard to its obligations and duties as trustee to the Secured Creditors pursuant to the STID), materially prejudicial to the interests of any of the Secured Creditors (where “**materially prejudicial**” means that such modification, consent or waiver would have a material adverse effect on the ability of the Obligors to repay the Secured Liabilities owed to the relevant Secured Creditors),

(each a “**Discretion Matter**”).

The Security Trustee shall be under no obligation to exercise its discretion in respect of any STID Proposal designated by the Transaction Agent as a Discretion Matter and, if the Security Trustee chooses not to exercise its discretion, it shall notify the Transaction Agent, which may then issue a STID Proposal, referring to another category.

Enhanced Rights Matters

The Security Trustee shall (without any requirement to obtain the consent or sanction of any other Secured Creditor, but subject to Entrenched Rights) as requested by the Transaction Agent by way of a STID Proposal, concur with the Transaction Agent and any other relevant party with any proposed modification, amendment, consent or waiver in or under any Common Document that results in:

- (i) an Obligor or Obligors becoming subject to additional covenants or covenants which are more restrictive (in each case other than financial covenants) than any covenants imposed on the relevant Obligors under the Common Documents;
- (ii) an Obligor or Obligors giving, or being deemed to give, additional or more frequent representations or warranties or representations or warranties which are more extensive than any representation or warranty given or deemed to be given under the Common Documents;
- (iii) any additional event or circumstance (other than relating to a financial covenant) giving rise to a Trigger Event; or
- (iv) any additional event or circumstance (other than relating to a financial covenant) giving rise to an Event of Default,

(each, an “**Enhanced Rights Matter**”) provided that (a) such modification, amendment, consent or waiver shall not impose any additional obligations on any Secured Creditor or the Security Trustee; and (b) each Secured Creditor shall have the benefit of each such additional or enhanced covenant, representation, warranty, Trigger Event or Event of Default.

Voting Matters

Other than with respect to a Discretion Matter or an Enhanced Rights Matter, and subject always to Entrenched Rights, the Security Trustee shall only agree to any modification or grant any consent or waiver if so instructed by the Majority Creditors, provided that the relevant Quorum Requirement has been met.

The STID contains detailed provisions setting out the voting and instruction mechanics in respect of the Voting Matters, including provisions specifying the relevant decision periods and quorum requirements.

Decision Period

Each STID Proposal shall specify the period of time within which the approval of the Security Trustee is sought (the “**Decision Period**”) which, subject to the provisions of the STID, shall not be fewer than:

- (a) in the case of any request in relation to a 20 Day Obligation (as such term is defined in the definition of “**Remedy Period**” in the MDA), 12 Business Days from the date of delivery of the STID Proposal to the Security Trustee; or
- (b) in the case of any other matter, 15 Business Days from the date of delivery of the STID Proposal to the Security Trustee; or
- (c) if the STID Proposal gives rise to an Entrenched Right and the Entrenched Right is one in respect of which the Bondholders of a Class or Sub-Class of Bonds and/or the Existing Issuer Bondholders are the Affected Secured Creditors, 45 days from the date of delivery of the STID Proposal to the Security Trustee,

provided that, in each case, for Voting Matters (whether or not giving rise to an Entrenched Right), the Decision Period shall be extended for a further period of 5 Business Days if the Quorum Requirement has not been met within the initial Decision Period.

Quorum Requirement for Voting Matters

The required quorum (the “**Quorum Requirement**”) in respect of any Voting Matter shall be one or more Qualifying Secured Creditor(s) representing in aggregate at least 20 per cent. of the entire Outstanding Principal Amount of all Qualifying Debt, provided that, if the Quorum Requirement has not been met within the relevant initial Decision Period, during any Extension Period (as defined below), the Quorum Requirement shall be one or more Qualifying Secured Creditor(s) representing in aggregate at least 5 per cent. of the entire Outstanding Principal Amount of all Qualifying Debt.

If the Quorum Requirement has not been met within any initial Decision Period, the Security Trustee shall, promptly following the last day of the initial Decision Period, send a notice to all DIG Representatives of the Qualifying Class A Debt (or, following the repayment in full of all Qualifying Class A Debt, the Qualifying Class B Debt) and all other Secured Creditors (or, where applicable, their Secured Creditor Representatives) confirming that the relevant Quorum Requirement was not met on such date and specifying the extended date by which the votes of the DIG Representatives must be received by the Security Trustee in respect of the extended Decision Period (the “**Extension Period**”) (to the extent not already received by the Security Trustee during the initial Decision Period).

Majority Creditors

If the Quorum Requirement for a Voting Matter is satisfied, a resolution in respect of a Voting Matter shall be passed by the Majority Creditors. Subject to the Entrenched Rights and the procedure for objecting to the determination of voting category made by the Transaction Agent in a STID Proposal, decisions of the Majority Creditors in relation to STID Proposals will bind the Secured Creditors in all circumstances provided that the relevant Quorum Requirement was met.

Class A Debt Instructing Group

Provided that the relevant Quorum Requirement has been met, decisions of the Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights (see section “*Entrenched Rights and Reserved Matters*” below).

The following persons shall act as Class A DIG Representatives for the Qualifying Class A Creditors party to the agreements or arrangements set out below to exercise as the agent of the appointer or, in the case of the Bond Trustee or any successor Bond Trustee, as the case may be, as trustee of all of their rights under the Common Documents:

- (a) in respect of each Authorised Credit Facility in respect of Class A Debt which is a bilateral agreement (by way of a loan, note certificate or otherwise), the relevant Qualifying Class A Creditor party to such Authorised Credit Facility;
- (b) in respect of each Authorised Credit Facility in respect of Class A Debt which is a multi-lateral agreement (other than the Class A Bonds and the Existing Issuer Bonds but including any loan agreement or notes where the lenders or noteholders are represented by an agent), the facility agent (or equivalent agent appointed by all of the Authorised Credit Providers party to such Authorised Credit Facility);
- (c) in respect of each Finance Lease designated as Class A Debt, the Finance Lessor party thereto;
- (d) in respect of the Class A Bonds, the Bond Trustee; and
- (e) in respect of the Notes, the Note Trustee.

Any Additional Secured Creditor which accedes to the STID and the CTA after the Closing Date shall appoint the Class A DIG Representative identified above as its agent to exercise all the rights of such Additional Secured Creditor under the STID and the CTA.

Class B Debt Instructing Group

The provisions relating to the Class A Debt Instructing Group and the Class A DIG Representatives set out above apply, *mutatis mutandis*, to the Class B Debt Instructing Group and the Class B DIG Representatives.

The following persons will act as Class B DIG Representatives for the Qualifying Class B Creditors party to the agreements or arrangements set out below to exercise as the agent of the appointer or, in the case of the Bond Trustee or any successor Bond Trustee, as trustee of all of their rights under the Common Documents:

- (a) in respect of each Authorised Credit Facility in respect of Class B Debt which is a bilateral agreement (by way of a loan, note certificate or otherwise), the relevant Qualifying Class B Creditor party to such Authorised Credit Facility;
- (b) in respect of each Authorised Credit Facility in respect of Class B Debt which is a multi-lateral agreement (other than Class B Bonds but including any loan agreement or notes where the lenders or noteholders are represented by an agent), the facility agent (or equivalent agent appointed by all of the Authorised Credit Providers party to such Authorised Credit Facility);

- (c) in respect of each Finance Lease designated as Class B Debt, the Finance Lessor party thereto; and
- (d) in respect of the Class B Bonds, the Bond Trustee.

Any Additional Secured Creditor which accedes to the STID shall appoint the Class B DIG Representative identified above as its agent to exercise all the rights of such Additional Secured Creditor under the STID and the CTA.

Noteholder Voting

In respect of any Voting Matter, each of the Noteholders (the “**Qualifying Existing Bondholders**”) shall be entitled to direct the note trustee to vote on its behalf as its Secured Creditor Representative in accordance with the voting procedures set out in the Trust Deed and the STID. Such voting procedures will envisage that for any Voting Matter which does not give rise to an Entrenched Right of the Noteholders (a “**STID Direct Voting Matter**”), the Noteholders, may instruct the Note Trustee without convening a meeting of Noteholders. The Security Trustee may, however, upon request by 10 per cent. of the Qualifying Secured Creditors, organise a physical meeting of relevant Qualifying Secured Creditors.

For any matter involving Entrenched Rights of the Noteholders, a meeting of the Noteholders will be convened.

In respect of any STID Direct Voting Matter, direction given by the relevant Noteholder within the timeframes specified in the Trust Deed, shall be binding on the Note Trustee, and the Note Trustee shall cast a vote accordingly on behalf of such Noteholder in respect of the relevant Voting Matter pursuant to the terms of the STID. Votes will be divided between votes cast in favour and votes cast against, on a pound for pound basis in an amount equal to the aggregate Principal Amount Outstanding of each Note, as the case may be, that voted on the STID Direct Voting Matter within the relevant Decision Period. Votes cast in favour and votes cast against will then be aggregated by the Security Trustee with the votes cast for and against by the other Qualifying Secured Creditors.

In respect of any Entrenched Matter, only an Extraordinary Resolution passed by the Noteholders shall be treated as a vote in favour of the relevant STID Proposal giving rise to the Entrenched Rights affecting the Noteholders.

For so long as any Senior Debt is beneficially owned by or on behalf of the Issuer, the Programme Issuer, the other Obligors, any Subsidiary thereof, any Permitted Additional Issuer Subsidiary or any member of the Affinity Group (each of the foregoing being a “**Connected Party**”) or for so long as a Connected Party has entered into a sub-participation agreement relating to any Senior Debt or other agreement or arrangement having substantially similar economic effect and such agreement or arrangement has not been terminated:

- (a) in ascertaining the Majority Creditors or Quorum Requirement for any consent, waiver, amendment or other vote under the STID, the Outstanding Principal Amount of such Connected Party or that of any lender of record or equivalent under any sub-participation agreement or equivalent or arrangement shall be zero; and
- (b) such Connected Party shall not be an Affected Secured Creditor.

A similar voting procedure will be available to the Noteholders under the Trust Deed.

Hedging Counterparties

Each Hedging Counterparty is or will be a Secured Creditor party to the STID, the CTA and the Hedging Agreement pursuant to which such Hedging Counterparty provides hedging in respect of interest rate or currency risks or exposure to the inflation risks in relation to Class A Debt or Class B Debt, as applicable.

The Hedging Counterparties in respect of each Class A Hedging Agreement will not form part of the Class A DIG and the Hedging Counterparties in respect of each Class B Hedging Agreement will not form part of the Class B DIG.

See also sections “*Cash Management*” and “*Hedging*” below.

Liquidity Facility Providers

Each Liquidity Facility Provider is or will be a Secured Creditor and a 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 or Class B DIG.

Finance Lessors

Each Finance Lessor is or will be a Secured Creditor and a party to the STID and the CTA and all amounts arising under the Finance Leases designated as Class A Debt or Class B Debt will constitute Class A Debt or Class B Debt, respectively.

Each Finance Lessor in respect of a Finance Lease designated as Class A Debt will form part of the Class A DIG and each Finance Lessor in respect of a Finance Lease designated as Class B Debt will form part of the Class B DIG.

As at the date of these Listing Particulars, there are no Finance Lessors.

Authorised Credit Providers

Each Authorised Credit Provider in respect of Class A Debt or Class B Debt, as the case may be, which is a bilateral agreement (by way of a loan, note certificate or otherwise) and which is a Qualifying Class A Creditor or a Qualifying Class B Creditor, as the case may be, and a party to such Authorised Credit Facility will form part of the Class A DIG or the Class B DIG, respectively. In respect of each Authorised Credit Facility in respect of Class A Debt or Class B Debt which is a multi-lateral agreement (other than the Bonds or the Notes but including any loan agreement or notes where the lenders or noteholders are represented by an agent), the facility agent (or equivalent agent appointed by all of the Authorised Credit Providers party to such Authorised Credit Facility) in respect of such Authorised Credit Facility will form part of the Class A DIG or the Class B DIG, respectively.

Standstill

The STID provides for an automatic standstill of the claims of the Secured Creditors against AWL, the Programme Issuer and the Issuer (the “**Standstill**”) upon notification to the Security Trustee of an Event of Default occurring (other than, for the avoidance of doubt, an Event of Default as defined in any Hedging Agreement with respect to a Hedging Counterparty) in accordance with the provisions of the STID.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against AWL.

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 Programme Issuer, the Issuer or AWL;
- (b) subject to the provisions on Permitted Share Pledge Acceleration, the Security granted by AWHL may be enforced at any time by the Security Trustee at the direction of the Majority Creditors (provided that the relevant Quorum Requirement has been met); and

- (c) save as provided in sub-paragraphs (a) and (b) above, no Enforcement Action may be taken by any Secured Creditor.

Notwithstanding the restrictions described above, any monies received by the Obligors (other than AWHL) and all monies credited to the Accounts, will be applied in accordance with the cash management provisions contained in the CTA (see section “*Cash Management*” below) and in accordance with the Payment Priorities (see section “*Cash Management – Debt Service Payment Account*” below).

The period of the Standstill in respect of any Event of Default relating to AWL and/or the Programme Issuer and/or the Issuer (the “**Standstill Period**”) will be 18 months unless the Standstill Period is automatically extended beyond 18 months (see section “*Standstill Extension*” below) or any of the following occurs prior to the expiry of the relevant Standstill Period:

- (a) an order is made for the Special Administration of AWL or any steps are taken to commence insolvency proceedings against the Programme Issuer or the Issuer 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 66 2/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Qualifying Class A Debt) Class B DIG Representatives in respect of 66 2/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class B Debt vote (pursuant to a Direction Notice) to terminate the Standstill Period (see section “*Standstill Extension*” below); or
- (c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period (such waiver or remedy, a “**Standstill Remedy**”).

The occurrence of a Standstill will not of itself prevent the Programme Issuer or the Issuer drawing under the DSR Liquidity Facilities.

Upon termination of a Standstill Period (except by virtue of the Standstill Remedy), 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

A Standstill Period which has commenced upon the occurrence of an Event of Default in relation to AWL and/or the Programme Issuer and/or the Issuer will be automatically 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 to terminate the Standstill Period at any time prior to or during such further 120 days;
- (b) following the period referred to in sub-paragraph (a) above, for a further 60 days unless Class A DIG Representatives in respect of 33 1/3 per cent or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote (pursuant to a Direction Notice) to terminate the Standstill Period at any time prior to or during such further 60 days; and
- (c) following the period referred to in sub-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 (pursuant to a Direction Notice) to terminate the Standstill Period at any time prior to or during such further 60 days, (and a vote shall be taken of the relevant DIG Representatives on the basis of such Outstanding Principal Amount 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).

When the Qualifying 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 Standstill Period in respect of any Event of Default will terminate upon the date of the relevant Standstill Remedy.

Enforcement

At any time after any of the Security Documents has become enforceable in accordance with its terms (including, for the avoidance of doubt, after any Permitted Share Pledge Acceleration), the Security Trustee shall (in the case of the Security granted by each of AWL, the Programme Issuer and the Issuer, subject to the Standstill provisions) enforce the Security in accordance with the instructions of the Majority Creditors if it is so instructed by the Majority Creditors (subject to the relevant Quorum Requirement being met).

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 section “*Cash Management – Debt Service Payment Account*” below).

Excluded Accounts

Although pursuant to the Security Agreement, AWL, the Programme Issuer and the Issuer have created first fixed charges over the Excluded Accounts in favour of the Security Trustee, the STID provides that on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedging Termination or Permitted Share Pledge Acceleration), all monies held in any Swap Collateral Account, the O&M Reserve Accounts (to the extent of the balance attributable to a Standby Drawing under the relevant O&M Reserve Facility), the Debt Service Reserve Accounts to the extent of the balance attributable to a Standby Drawing under the relevant DSR Liquidity Facility and any Cash Cover Account (together, the “**Excluded Accounts**”) are held by the Security Trustee on trust for the relevant Hedging Counterparty or guarantor thereof that has provided collateral for its obligations or, as the case may be, the relevant Liquidity Facility Providers whose commitments have been drawn by way of the relevant Standby Drawing or, as the case may be, the relevant Issuing Bank or relevant Authorised Credit Provider. The trust held by the Security Trustee over amounts in the O&M Reserve Accounts or the Debt Service Reserve Accounts by way of the relevant Standby Drawing are in the proportions that the relevant Liquidity Facility Providers’ respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreement by way of a Standby Drawing bear to the balance on the relevant O&M Reserve Account or the relevant Debt Service Reserve Account, as the case may be.

Accession of Additional Secured Creditors

The STID requires that, to the extent that the Transaction Agent wishes any person to obtain the benefit of the Security and become a Secured Creditor and to accede as a party to the CTA and the STID, the Transaction Agent must notify the Security Trustee thereof. Each such proposed Additional Secured Creditor must, together with the Transaction Agent and, where applicable, the Secured Creditor Representative of such proposed Additional Secured Creditor, 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.

Subordinated Creditors

The STID also contains provisions restricting the rights of Subordinated Creditors in respect of any Subordinated Debt of an Obligor from time to time. The STID contains mechanics requiring any creditor in respect of Subordinated Debt to accede to the STID as a Subordinated Creditor.

Entrenched Rights and Reserved Matters

As described above, modifications, consents and waivers will be agreed to by the Security Trustee, in accordance with the Discretion Matter, Voting Matter or Enhanced Rights Matter procedure, but subject always to Entrenched Rights.

If a STID Proposal states that the proposal is in respect of an Entrenched Right then unless each Affected Secured Creditor votes in favour of the proposal in accordance with the mechanics set out in the STID during the Decision Period then the STID Proposal shall not be passed and the Security Trustee shall not concur with the Obligors or any other person in making the consents, modifications or waivers proposed in the STID Proposal unless each Affected Secured Creditor has confirmed to the Security Trustee its approval of the relevant modification, consent or waiver. However, if such time period has passed since such Affected Secured Creditor was notified of such Entrenched Right and such Affected Secured Creditor has not responded to the STID Proposal, such person or persons shall be deemed to have consented to the relevant STID Proposal and to have confirmed to the Security Trustee their approval of the relevant modification, consent or waiver.

In the case of the Qualifying Existing Bondholders, an Extraordinary Resolution in favour of such proposal must be passed at a meeting of the Noteholders in accordance with the Trust Deed. For the avoidance of doubt, individual Noteholders shall not be entitled to assert an Entrenched Right other than through the Note Trustee. The same protections are available to the Bondholders.

The parties to a Finance Document (which is not a Common Document) (an “**Other Finance Document**”) may agree to any modification to, give its consent under or grant any waiver in respect of any matter under that Other Finance Document without the consent of any other party to the Common Documents provided that, if such modification, consent or waiver is inconsistent with any provisions of the CTA or the STID, the relevant provision of the CTA or the STID shall prevail.

Lists of Entrenched Rights and Reserved Matters are contained in the sections “*Entrenched Rights*” and “*Reserved Matters*” below.

Overriding principle

No Entrenched Right will operate to override the provisions contained in the CTA which allow amendment to the level of any Financial Ratio contained within each of the Financial Covenants, the Trigger Events or the Events of Default, where such amendment is made in accordance with the terms of the CTA (including following the occurrence of a Senior RAR Restructuring Event), or which is required to reflect a change to accounting standards in accordance with the CTA.

Entrenched Rights

Entrenched Rights are rights that, subject to the provisions set out in the STID, can only be modified, consented to or waived in accordance with the STID if the Secured Creditor having the Entrenched Right votes in favour of such modification or waiver.

Entrenched Rights of Class A Creditors

The Entrenched Rights of the Class A Creditors include any proposed modification to, or consent or waiver under or in respect of, any term of the STID and/or any other Common Document which:

- (i) would result in an increase in or would adversely modify its obligations or liabilities under or in connection with any Common Document;
- (ii) would:
 - (a) release any of the Security (unless at least 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
 - (b) adversely alter the rights of priority of or the enforcement by the relevant Class A Creditor (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein; or
 - (c) in respect of a Class A Creditor, decrease the amount of that Class A Creditor's share of the Secured Liabilities which are secured by means of the Security; or
 - (d) in respect of a Class A Creditor, deprive such Class A Creditor of its status as a Secured Creditor;
- (iii) would:
 - (a) adversely change or would have the effect of adversely changing the Payment Priorities (including by amending any of the defined terms referred to in the Payment Priorities if to do so would have the aforementioned effect); or
 - (b) adversely change or would have the effect of adversely changing the ranking of the claims of the relevant Class A Creditor; or
 - (c) change or would have the effect of changing any requirement set out in any Finance Document that certain payments, applications or distributions should be made in accordance with the Payment Priorities;
- (iv) would change or would have the effect of changing:
 - (a) the Entrenched Rights or the Reserved Matters (including by changing any relevant definitions) or the existence thereof; or
 - (b) (where applicable) the relevant Class A Creditor's Entrenched Rights or Reserved Matters (including by changing any relevant definitions) or the existence thereof; or
 - (c) any statement in any provision of any Finance Document that such provision is subject to an Entrenched Right or Reserved Matter; or
 - (d) the manner in which such Entrenched Rights or Reserved Matters may be exercised or the consequences of exercising such Entrenched Rights or Reserved Matters,

(in each case including any supplement to the Entrenched Rights of an Additional Secured Creditor as specified in the relevant Accession Memorandum);
- (v) would change or would have the effect of changing:
 - (a) the definitions of:
 - (1) "Authorised Credit Facility",
 - (2) "Authorised Credit Provider",
 - (3) "Class A Creditor",

- (4) “Class A DIG”,
- (5) “Class A DIG Representative”
- (6) “Direction Notice”,
- (7) “DIG Representatives”,
- (8) “Discretion Matter”,
- (9) “Finance Documents”,
- (10) “Majority Creditors”,
- (11) “Qualifying Class A Creditor”,
- (12) “Qualifying Debt”,
- (13) “Qualifying Secured Creditor”
- (14) “Secured Creditor” or
- (15) “Voting Matter”,

in each case insofar as such change would remove, or would have the effect of removing, the relevant Class A Creditor from the relevant definition;

- (b) “Secured Liabilities” insofar as such change would remove, or would have the effect of removing, the Class A Debt of such Class A Creditor from the definition of “Secured Liabilities”;
 - (c) “Qualifying Class A Debt”; insofar as such change would remove, or would have the effect of removing, the Outstanding Principal Amount of Qualifying Class A Debt of such Class A Creditor from time to time from the definition of “Qualifying Class A Debt”;
 - (d) “Voted Qualifying Class A Debt” insofar as such change would remove, or would have the effect of removing, the Outstanding Principal Amount of Qualifying Class A Debt voted by or on behalf of such Class A Creditor from time to time from the definition of “Voted Qualifying Class A Debt”; or
 - (e) “Decision Period”, “Quorum Requirement”, “Restricted Payment”, “Restricted Payment Condition”, “Secured Liabilities” or “STID Proposal”; or
 - (f) the use of the relevant defined terms referred to in item (v)(b) above in any Common Document in a manner which would affect the rights or interests of any Class A Creditor;
- (vi) would change or would have the effect of changing 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;
 - (vii) would change or would have the effect of changing the percentages of the aggregate Outstanding Principal Amount of Qualifying Class A Debt required to terminate a Standstill pursuant to the STID (as described under section “*Standstill Extension – Security Trust and Intercreditor Deed*” above);
 - (viii) subject to paragraph (ix) below, would change or would have the effect of changing:
 - (a) any of the Events of Default or the consequences of an Event of Default as set out in the CTA;

- (b) any of the Trigger Events relating to the Financial Ratios or any of the Trigger Event remedies provided for in the CTA;
- (c) any of the Financial Ratios (save for the amendments made following a Periodic Review or any transfer of activities or any reduction in RCV as a result of any change in price control methodology or any material damage in the regulation of the water industry in the United Kingdom or specifically permitted under the CTA) or any of the provisions relating to the making of the Restricted Payments;
- (ix) would waive any non payment Event of Default or an Event of Default relating to the financial ratios or any Trigger Event relating to the financial ratios or the making of the Restricted Payments;
- (x) would approve an assignment of any rights or a transfer of any obligations of an Obligor under the STID or any other Common Document (other than as contemplated in any Common Document);
- (xi) would change or would have the effect of changing the provisions of the STID limiting general discretion of the Obligors or the Security Trustee in respect of the Voting Matters, Entrenched Rights or matters subject to an ongoing disagreement in respect of designation by the Transaction Agent; or
- (xii) would change or would have the effect of changing the governing law or the dispute resolution clauses of any Common Document,

where “adversely” means, in respect of any change to the Payment Priorities or other rights of priority, a change which has the effect of changing the priority of the Class A Creditors or any of them: (x) relative to each other, or (y) relative to any amount owed to any creditor ranking *pari passu* with or in priority to the Class A Creditors or any of them, or (z) relative to any amount owed to any creditor which ranks subordinate to the Class A Creditors or any of them, where such change would result in the relevant amounts ranking *pari passu* with, or in priority to, any amount owed to any Class A Creditor.

Entrenched Rights of Class B Creditors

The Entrenched Rights of the Class B Creditors mirror those rights applicable for Class A Creditors *mutatis mutandis*.

Other Secured Creditors’ Entrenched Rights

The Security Trustee, the Finance Lessors and the Hedging Counterparties have certain other limited Entrenched Rights in relation to any provisions of the Common 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 and/or its respective Secured Creditor Representative 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 the Secured Creditors and/or their respective Secured Creditor Representatives reserve to themselves to decide upon are each and every right, power, authority and discretion of, or exercisable by, the Secured Creditors and/or their respective Secured Creditor Representatives 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 or Finance Document to which it (or its Secured Creditor Representative) is a party as permitted pursuant to the terms of 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 or Finance Document to which it (or its Secured Creditor Representative) is a party as permitted by the terms of the CTA;
- (c) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;
- (d) to assign its rights or transfer any of its rights and obligations under any Authorised Credit Facility or Finance Document to which it (or its Secured Creditor Representative) is a party;
- (e) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules (or equivalent provisions thereunder relating to the calculation of Rental or termination sums) to the relevant Finance Lease and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;
- (f) in the case of each Hedging Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedging Termination; and
- (g) in the case of any Secured Creditor, to make a Permitted Share Pledge Acceleration, upon enforcement of the share pledge provided by AWHL pursuant to the provisions of the Security Agreement with the prior consent of the Majority Creditors (provided that the relevant Quorum Requirement has been met).

The Security Trustee, the Bond Trustee, the Note Trustee and the Hedging Counterparties also have certain Reserved Matters under the STID in relation to the matters that affect them more than other Secured Creditors.

Substitution of the Issuer

The Trust Deed provides for the procedure of substitution of the Issuer (or any substituted Issuer) subject to the provisions of the STID.

The Trustee may, without the consent of the Noteholders and Couponholders agree to the substitution of any other company (the “**Substituted Issuer**”) in place of the Issuer as principal debtor under the Trust Deed, so long as:

- (a) a trust deed is executed or some other written form of undertaking is given by the Substituted Issuer to the Trustee, in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Finance Documents, the Trust Deed, the Notes, the Talons and Coupons with any consequential amendments which the Trustee may deem appropriate;
- (b) the Issuer, the Substituted Issuer and the Guarantors execute such other deeds, documents and instruments (if any) as the Trustee may require in order that the substitution is fully effective and that the requirement set out in paragraph (c) below in respect of the Guarantee relating to the Notes is met and comply with such other requirements as the Trustee may direct in the interests of the Noteholders and the Couponholders;
- (c) the obligations of the Substituted Issuer under the Notes continue to be irrevocably and unconditionally guaranteed by each Guarantor;
- (d) (if all or substantially all the assets of the Issuer or any previous Substituted Issuer (as applicable) are transferred to the Substituted Issuer) the Substituted Issuer acquires the Issuer's or any previous Substituted Issuer's (as applicable) equity of redemption (other than the undertaking of the Issuer or any previous Substituted Issuer (as applicable)), becomes a party to all the Finance Documents to which the Issuer or any previous Substituted Issuer (as applicable) is a party, acknowledges the

Security and the other matters created and effected in respect thereof and takes all such action as the Security Trustee may require so that the Security Assets continue to be subject to the Security and the other matters created by the Substituted Issuer and otherwise effected or maintained in all respects corresponding to those previously subsisting on the part of the Issuer or such previous Substituted Issuer (as applicable);

- (e) (unless all or substantially all of the assets of the Issuer or any previous Substituted Issuer are transferred to the Substituted Issuer) an unconditional and irrevocable guarantee secured on the Security Assets in form and substance satisfactory to the Trustee is given by the Issuer or any previous Substituted Issuer (as applicable) of the obligations of the Substituted Issuer under this Trust Deed and the Finance Documents;
- (f) the Substituted 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 or any previous Substituted Issuer (as applicable), and satisfies the criteria for a single purpose company established from time to time by the Rating Agencies;
- (g) the Trustee is satisfied that (i) the Substituted Issuer has obtained all governmental and regulatory approvals and consents necessary for its assumption of liability as principal debtor under the Trust Deed and in respect of the Notes and the Finance Documents in place of the Issuer or any previous Substituted Issuer (as applicable) and (ii) such approvals and consents are at the time of substitution in full force and effect;
- (h) each of the Rating Agencies have confirmed in writing to the Trustee that the substitution of the Substituted Issuer will not result in a downgrading of the then current credit rating of such Rating Agencies applicable to the Notes issued by such Substituted Issuer (provided that in circumstances where a Rating Agency is not willing to confirm in writing or to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, AWL (in its capacity as Transaction Agent) has certified in writing to the Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with AWL (in its capacity as Transaction Agent) this opinion is based on consultation with such Rating Agency), such substitution of the Substituted Issuer would not cause a downgrade to the then current credit ratings of such Rating Agency applicable to the Notes, in each case, issued by such Substituted Issuer); and
- (i) the Trustee is provided with such legal opinions as it may require in respect of such substitution in form and substance satisfactory to it.

The Trustee shall be entitled to refuse to approve any Substituted Issuer if, pursuant to the law of the jurisdiction of incorporation of the Substituted Issuer, the assumption by the Substituted Issuer of its obligations hereunder imposes responsibilities on the Trustee over and above those which have been assumed under the Trust Deed.

If any two Directors of the Substituted Issuer certify that immediately prior to the assumption of its obligations as Substituted Issuer under the Trust Deed the Substituted Issuer is solvent after taking account of all prospective and contingent liabilities resulting from its becoming the Substituted Issuer, the Trustee need not have regard to the financial condition, profits or prospects of the Substituted Issuer or compare the same with those of the Issuer or any previous Substituted Issuer (as applicable).

In connection with any proposed substitution, the Trustee shall not have regard to, or be in any way liable for, the consequences of such substitution for individual Noteholders or Couponholders or other Secured Creditors resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of any particular territory. Save as provided in the Finance Documents, no

Noteholder or Couponholder or other Secured Creditors shall, in connection with any such substitution, be entitled to claim from the Issuer or any previous Substituted Issuer (as applicable) any indemnification or payment in respect of any tax arising directly as a consequence of any such substitution in respect of individual Noteholders or Couponholders or other Secured Creditor.

Intercompany Loan Arrangements

Issuer/AWL Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time, excluding the raising of debt under DSR Liquidity Facilities will be backed by an aggregate nominal amount of debt owed by AWL to the Issuer under a loan agreement (the “**Issuer/AWL Loan Agreement**”). As such, the Issuer/AWL Loan Agreement is a source of funds capable of servicing any payments due and payable on the Notes.

The Issuer’s obligations to repay principal and pay interest on the Notes are intended to be met primarily from the payments of principal and interest received from AWL under an Issuer/AWL Loan Agreement. The business of AWL demonstrates the capacity to produce funds to service any payments due and payable by AWL under the Issuer/AWL Loan Agreements.

The advance made by the Issuer under the Issuer/AWL Loan Agreement applicable to the Further Notes will be in a currency and in an amount and at a rate of interest (plus a retained margin of £1,000 per annum) or, if hedged by the Issuer in accordance with the Hedging Policy (see section “*Hedging*” below), at the hedged rate and will have interest payment dates on the same dates as the Further Notes. Interest on each advance made under an Issuer/AWL Loan Agreement will accrue from the date of such advance. The advance made under the Issuer/AWL Loan Agreements will be repayable on the same date as the Notes.

Each Issuer/AWL Loan Agreement is or will be governed by English law and subject to the jurisdiction of the English courts (except the Issuer alone may commence the proceedings in any other court with jurisdiction).

Programme Issuer/AWL Loan Agreements

All Financial Indebtedness raised by the Programme Issuer from time to time other than the raising of debt under DSR Liquidity Facilities will be backed by an aggregate nominal amount of debt owed by AWL to the Programme Issuer under a loan agreement (each a “**Programme Issuer/AWL Loan Agreement**”). Each advance under a Programme Issuer/AWL Loan Agreement will relate to the principal amount of the relevant Sub-Class of Bonds issued by the Programme Issuer on an issue date.

The Programme 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 AWL under each Programme Issuer/AWL Loan Agreement and, where it has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Programme Issuer under such Hedging Agreement. All advances to be made by the Programme Issuer under the Programme Issuer/AWL Loan Agreements will be in a currency and in amounts and at rates of interest (plus, in respect of the Programme Issuer/AWL Loan Agreement, a retained margin of £1,000 per annum), set out in the relevant final terms or drawdown prospectus or, if hedged by the Programme Issuer in accordance with the Hedging Policy (see section “*Hedging*” below), at the hedged rate and will have interest payment dates on the same dates as the related Bonds. Interest on each advance made under a Programme Issuer/AWL 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.

Fees Generally

The Issuer is responsible for paying certain fees, costs and expenses of, amongst others, the Note Trustee, the Paying Agents, , the Note Trustee’s legal advisers and the Issuer’s legal advisers and the Joint Lead Managers’

legal advisers and certain fees due to the DSR Liquidity Facility Provider (together with the Programme Issuer). On the Issue Date, AWL will pay to the Issuer an initial facility fee of an amount equal to the upfront fees and expenses of the foregoing and certain other fees payable by the Issuer in connection with the issue of the Further Notes and the entry into the Issuer/AWL Loan Agreement.

AWL is responsible for paying the fees and expenses of the Joint Lead Managers', the Joint Lead Managers' legal advisers, the O&M Reserve Facility Provider and (together with the other Secured Creditors) the Security Trustee.

AWL will (i) by way of facility fees under the Programme Issuer/AWL Loan Agreements, pay to the Programme Issuer amounts equal to the amounts required by the Programme Issuer to pay its ongoing fees and expenses under the Finance Documents (together with an annual amount of £1,000 to be retained by the Programme Issuer as a profit); and (ii) by way of facility fees under the Issuer/AWL Loan Agreements pay to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees and expenses under or in connection with the Notes and its tax liabilities as they fall due (together with an annual amount of £1,000 to be retained by the Issuer as a profit).

Common Terms Agreement

General

Each of the Existing Hedging Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Existing Authorised Credit Providers, the Senior Facilities Agent, the Senior Facilities Arrangers, each Obligor, the Bond Trustee, the Note Trustee, the Programme Principal Paying Agent, the Transfer Agent, the Registrar and others have entered into, on the Closing Date, a common terms agreement (the "**Common Terms Agreement**" or "**CTA**"). The CTA 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 Programme Issuer/AWL Loan Agreements and the Issuer/AWL Loan Agreements, the Existing Authorised Credit Facilities, the Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the CTA that any representation, covenant (to the extent of being able to declare an Event of Default), Trigger Event and Events of Default contained in any document which is in addition to those in the CTA and any other Common Document and any other exception expressly set out in the CTA will be unenforceable (save for limited exceptions which will, among other things, include covenants relating to the purpose of an Authorised Credit Facility, covenants relating to indemnities, covenants to pay (including related payment mechanics), covenants relating to remuneration, costs and expenses, representations and covenants in each Class or Sub-Class of Bonds, "clean-down" provisions in any Revolving Credit Facility, certain provisions under the Hedging Agreements and any Finance Leases and any additional representations or covenants as may be required in connection with a Private Placement).

The CTA allows AWL (following a Periodic Review or any transfer of activities or any reduction in RCV as a result of any change in price control methodology 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 the Security Trustee (acting on the instructions of the Majority Creditors) agrees and the relevant ratings set out in the definition of Rating Requirement (in relation to the Class A Bonds and the Notes) have been affirmed by all Rating Agencies then rating the Bonds and the Notes (provided that in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, AWL has certified in writing to the Security Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with AWL this opinion is based on consultation with such Rating Agency) such amendment would not cause the ratings of

the Bonds or the Notes to be downgraded below the relevant ratings set out in the definition of Rating Requirement by such Rating Agency).

The CTA also sets out the cash management arrangements which apply to the Financing Group (see section “*Cash Management*” below) and the Hedging Policy with which each Hedging Agreement entered into must comply with (see section “*Hedging – Hedging Policy*” below). It is a requirement of the CTA that future providers of Authorised Credit Facilities must also accede to the CTA and the STID.

A summary of the representations, covenants, Trigger Events and Events of Default to be included in the CTA is set out below.

Representations

On the date of the CTA and on the Closing Date, each Obligor made a number of representations in respect of itself to each Finance Party. Additionally, certain representations will be repeated by the relevant Obligor on (i) the date upon which any new Authorised Credit Facility is entered into; and (ii) the date upon which any new Bonds are issued under the Programme (the “**Initial Date Representations**”). Certain representations will also be repeated by the relevant Obligor on: (i) the date of each utilisation request in respect of an Authorised Credit Facility and the first day of any borrowing; (ii) each payment date in respect of an Authorised Credit Facility; and (iii) each date for making a Restricted Payment (the “**Repeated Representations**”).

These representations to be given by each Obligor will be subject, in some cases, to agreed exceptions, customary qualifications and to qualifications as to materiality and reservations of law, and will, *inter alia*, include representations as to:

- (i) *Corporate Status and Powers*: its corporate status, power and authority and certain other legal matters;
- (ii) *Non-conflict*: non-conflict with documents binding on it, constitutional documents or laws;
- (iii) *Financial Statements*: 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);
- (iv) *No Default or Potential Trigger Event*: no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents and no other event or circumstance is outstanding which constitutes (or with the expiry of a grace period, the giving of a notice, the making of any determination or any combination of any of the foregoing, would constitute) a default or termination event under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries’) assets are subject which would have a Material Adverse Effect;
- (v) *Authorisations*: it obtaining all necessary consents and approvals;
- (vi) *Status of Security*: 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;
- (vii) *Insurances*: maintaining all necessary insurances;
- (viii) *No winding-up*: there being no insolvency event in relation to it (other than any proceeding or claim which is being contested in good faith and is not outstanding for longer than 60 days);
- (ix) *Compliance with laws*: the conduct of its business not violating any judgment, law or regulation which, if enforced would have a Material Adverse Effect;

- (x) *Taxation*: the due payment of all taxes save to the extent any tax payment is being disputed in good faith;
- (xi) *No deduction or withholding*: under the laws of its jurisdictions of incorporation and tax residence in force on the Closing Date, it is not (other than as disclosed) required to make any deduction or withholding from certain payment of interest under the Finance Documents (as set out in the CTA);
- (xii) *Ranking of Secured Claims*: subject to reservations of law, the claims of the Secured Creditors ranking prior to the claims of its other unsecured and unsubordinated creditors;
- (xiii) *Negative Pledge and Financial Indebtedness*: no Security Interest having been created or existing other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness and, in the case of AWL only, Permitted Volume Trading Arrangements;
- (xiv) *No litigation*: save as otherwise disclosed herein (or in any updated Prospectus, Listing Particulars or supplement hereto) no litigation proceedings current, pending or threatened;
- (xv) *Environmental Compliance*: compliance with Environmental Laws and the absence of environmental claims;
- (xvi) *Arm's length terms*: all arrangements or contracts with any person being on an arm's length basis;
- (xvii) *Financial Indebtedness*: on the Closing Date, no member of the Financing Group being liable in respect of any Financial Indebtedness that is not Senior Debt, except for certain Permitted Financial Indebtedness;
- (xviii) *Security Shares*: on the date such representation is made, the shares over which Security will be granted pursuant to the Security Agreement are validly issued, fully paid, non-assessable and freely transferable in accordance with the constitutional documents of the relevant Obligor and constitute shares in the capital of limited companies, and there are no moneys or liabilities outstanding or payable in respect of any such share;
- (xix) *Intellectual Property*: in the case of AWL, to the best of its knowledge having made due and careful enquiry in accordance with Good Industry Practice, it having the right to use all Intellectual Property Rights necessary for the conduct of its Appointed Business;
- (xx) *Assumptions*: in the case of AWL, assumptions used in respect of financial ratio calculations and projections having been made in good faith and arrived at after careful consideration, being consistent with the financial information required to be produced by AWL and, subject to the provisions on changes to accounting standards, being materially consistent with Applicable Accounting Principles and the Good Industry Practice;
- (xxi) *Special Administration*: in the case of AWL, it being unaware of a petition having been presented pursuant to section 24 of the WIA or a winding-up petition having been presented as referred to in section 25 of the WIA, or any Special Administration Order having been made in respect of it;
- (xxii) *Pensions*: in the case of AWL, it being a participating employer under the Permitted Existing Pension Schemes, and save for certain exemptions, all of its liabilities accrued and to accrue in the future under the Permitted Existing Pension Schemes being connected with the Obligors only; and
- (xxiii) *U.S. Representations*: certain matters in connection with any offering of the PP Bonds to be offered to investors in or connected to the United States of America.

Additionally, each of the Programme Issuer and the Issuer represented that its activities were limited prior to the Closing Date to those required in connection with its formation and capitalisation (in the case of the

Programme Issuer) or those related to the incurrence of and performance in relation to the Original Notes (in the case of the Issuer) as required by their bankruptcy remote status.

In connection with any new Authorised Credit Facility, the Transaction Agent may agree with the relevant Authorised Credit Provider to disapply any of the representations in respect of the terms of such new Authorised Credit Facility and no consent of the Secured Creditors shall be required in respect of such disapplication provided that their rights are not affected.

Covenants

The CTA contains certain positive, negative and financial covenants from each of the Obligors. A summary of the covenants which are included in the CTA (subject, in some cases, to agreed exceptions, *de minimis* amounts and qualifications as to materiality and reservations of law) is set out in sections “*Information Covenants*”, “*General Covenants*” and “*Financial Covenants*” below.

In connection with any new Authorised Credit Facility, the Transaction Agent may agree with the relevant Authorised Credit Provider to disapply any of the covenants (other than the financial covenants) in respect of the terms of such new Authorised Credit Facility and no consent of the Secured Creditors shall be required in respect of such disapplication provided that their rights are not affected.

In respect of the Compliance Certificate and Investor Report below, see Chapter 6 “*Regulation of the Water Industry in England and Wales – PR14 Ofwat financial model and Financial Ratios*” in respect of PR14 reporting.

Information Covenants

- (i) AWL undertakes to provide, from time to time, certain information including:
 - (a) information, which would reasonably be expected by AWL to result in a Material Adverse Effect, which it supplies to Ofwat;
 - (b) details of proposed material changes to the Instrument of Appointment or any proposed changes to the constitutional documents of any Obligor which, if implemented, would reasonably be expected by AWL to have a Material Adverse Effect;
 - (c) details of any investigations or proceedings which would reasonably likely have a Material Adverse Effect;
 - (d) any notice (including an Enforcement Order) from any governmental authority or industry regulator received by AWL which (save that in the case of an Enforcement Order) would reasonably be expected by AWL to have a Material Adverse Effect and which relates to creditworthiness of AWL or its ability to perform its duties under the Instrument of Appointment;
 - (e) certain other material information about the business and financial condition of each of the Obligors as may be requested or required to be delivered from time to time; and
 - (f) information within AWL’s possession in relation to any public announcement of K which has or would reasonably be expected to have a Material Adverse Effect.
- (ii) The Transaction Agent (on behalf of itself and each other Obligor) undertakes to provide, within the timeframe agreed in the CTA:
 - (a) audited unconsolidated financial statements of each Obligor and (in respect of AWL only) its unaudited unconsolidated interim financial statements.

- (b) copies of all material documents dispatched by it to its creditors generally;
- (c) details of any litigation or other proceedings which are current, threatened or pending and which, alone or in aggregate, could reasonably be expected to give rise to a claim against AWL exceeding the greater of (i) 1 per cent. of the RCV; or (ii) £10,000,000 (indexed) and which, if adversely determined, would be reasonably likely to have a Material Adverse Effect;
- (d) details of any Obligor and/or Senior Debt placed on credit watch with negative implications with a view to a possible downgrade of such Obligor and/or the Senior Debt below Investment Grade;
- (e) notification of any Default and Potential Trigger Event;
- (f) details of any event which could give rise to an insurance claim in excess of the greater of (i) 0.25 per cent. of RCV, and (ii) £5,000,000 (indexed);
- (g) details of any event which would be reasonably likely, in the reasonable opinion of AWL, to have a Material Adverse Effect;
- (h) a Compliance Certificate to be accompanied by computations made in respect of the historical and forward-looking Financial Ratios as required by the CTA (and the Transaction Agent shall permit the Security Trustee to investigate the calculations contained in any Compliance Certificate);
- (i) sufficient copies of each Investor Report; and
- (j) to deliver a certificate upon reasonable request by the Security Trustee certifying that no Default is outstanding of which it is aware, having made all reasonable enquiries, or, if a Default is outstanding, specifying the Default and the steps (if any) taken or proposed to be taken to remedy such event.

General Covenants

Covenants of the Obligors

Each Obligor undertakes, among other things:

- (i) *Ranking of Secured Claims*: to ensure that the secured claims of Secured Creditors against it under the Finance Documents will rank (subject to the Reservations) to the extent that they are secured pursuant to a Security Agreement, prior to the claims of all its other unsecured and unsubordinated creditors;
- (ii) *Conduct of business*: to operate and maintain its business in a safe, efficient and business-like manner and in accordance with its memorandum and articles of association and the Finance Documents and, in the case of AWL, the Instrument of Appointment (in all material respects), the WIA and (taking its Business as a whole) Good Industry Practice;
- (iii) *Compliance with laws*: within a reasonable period of time, to comply in all material respects with all applicable laws, regulations and orders to which it is subject (unless otherwise consented to or approved by any governmental authority or industry regulator (including Ofwat and DEFRA));
- (iv) *Structure of the Financing Group*: to ensure that, save as otherwise agreed by the Security Trustee and save for any Permitted Acquisitions or Permitted Disposals, the corporate ownership structure of the Financing Group (other than the ownership or Control of AWHL) remains as at the date of the original CTA;

- (v) *Mergers*: not to enter into any corporate amalgamation, demerger, merger, consolidation or reconstruction other than as agreed by the Security Trustee (except, in the case of AWL, a Permitted Disposal or a Permitted Acquisition);
- (vi) *Financial Indebtedness*: not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of AWL, Permitted Volume Trading Arrangements;
- (vii) *Acquisitions and Investments*: (A) not to make any acquisition or investment other than Permitted Acquisitions, Authorised Investments and Permitted Joint Ventures or as otherwise permitted under the terms of the CTA, in each case, without the consent of the Security Trustee; and (B) not to establish any joint venture other than a Permitted Joint Venture without the consent of the Security Trustee;
- (viii) *Amendments to documents*: not to change its constitutional documents without the prior written consent of the Security Trustee if such change would be reasonably likely to have a Material Adverse Effect or otherwise materially prejudice the Security Interests created by the Security Documents (provided that any amendment to increase the authorised share capital of an Obligor shall be deemed not to have a Material Adverse Effect or to be otherwise materially prejudicial to the Security Interests);
- (ix) *Treasury Transactions*: not to enter into any Treasury Transaction other than (i) in the case of the Programme Issuer, the Issuer or AWL pursuant to Hedging Agreements; (ii) any Treasury Transactions entered into between Obligors; and/or (iii) Treasury Transactions entered into by AWL in accordance with Good Industry Practice to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;
- (x) *Tax affairs*: outside the ordinary course of its business and except in connection with a Permitted Tax Loss Transaction or the AWL VAT Group or pursuant to any Finance Lease Document, not to enter, without the consent of the Security Trustee, 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;
- (xi) *Litigation*: 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;
- (xii) *Authorisations and corporate status*:
 - (a) as soon as reasonably practicable to obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including, where applicable, the Instrument of Appointment) necessary for the conduct of its business, for entry into and performance of the Finance Document, as a whole in accordance with Good Industry Practice (unless otherwise consented to or approved by any governmental authority or industry regulator (including Ofwat and DEFRA));
 - (b) to do nothing which would be reasonably likely to lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals referred to in (a) above; and
 - (c) do all such things as are necessary to maintain its corporate status,

in each case where failure to do so would be reasonably likely to have a Material Adverse Effect or, in the case of (c) above only, which would otherwise adversely affect the Security Interests of the Secured Creditors;

(xiii) *Negative pledge:*

(a) not to:

- (1) 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; or
- (2) 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 Common Documents;

(b) not to:

- (1) sell, transfer or otherwise dispose of any of its assets on terms where it may be leased to or reacquired or acquired by an Associate other than Permitted Disposals or (in the case of AWL) pursuant to a Finance Lease or sell, transfer or otherwise dispose of any of its receivables (other than Permitted Book Debt Disposals); or
- (2) 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 (i) with respect to (b)(2) above, assets acquired in the ordinary course of its business carried on in the normal course, provided that such transaction is not entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset or (ii) with respect to (b)(1) above, where the transaction is not entered into primarily as a method of raising finance and the consideration in respect of such sales, leases, transfers or disposals is received in cash in full at the time and does not exceed an amount equal to 0.1 per cent. of RCV in aggregate at any time;

(xiv) *Disposals:* not to dispose of all or any part of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal, a Permitted Joint Venture or pursuant to the creation of a Permitted Security Interest;

(xv) *Tax affairs:*

- (a) not to change its tax residence from the United Kingdom except that the Programme Issuer may be treated under United Kingdom tax law as resident for tax purposes in the Cayman Islands in addition to being tax resident in the United Kingdom; and
- (b) to pay all Taxes for which it or another Obligor is primarily liable prior to penalties being incurred unless payment of or liability to 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;

(xvi) *Arm's length terms:* not to enter into any arrangement or contract with any person other than another member of the Financing Group otherwise than on an arm's length basis other than:

- (a) those disclosed to the Security Trustee on or before the Closing Date;
- (b) pursuant to or permitted under the Common Documents;
- (c) as a result of a Permitted Emergency Action (in which case AWL shall use reasonable endeavours to ensure that all arrangements and contracts entered into will be on arm's length basis, although AWL will not be required to obtain alternative competitive quotes);
- (d) subject to certain requirements, the Shared Services Agreement;

- (e) subject to certain requirements, pursuant to the Transitional Agreements; and
- (f) those approved by Ofwat.

Additional covenants of AWHL

Additionally, AWHL undertakes, amongst other things:

- (i) not to carry on or transact any business or other activity other than (A) ownership of the shares in members of the Financing Group held by it from time to time; (B) the giving of the guarantee and security in accordance with the Finance Documents; (C) the performance of obligations required or exercise of any rights under the Finance Documents (including the declaration of payment of any Restricted Payment permitted under the Finance Documents and the entry into Permitted Tax Loss Transactions in accordance with the Tax Deed of Covenant); (D) receiving the Intra-Group Debt Service Distributions (if any); and (E) carrying out any Permitted Post Closing Events;
- (ii) not to own any asset or incur any liabilities except for the purposes of carrying on its business in accordance with the Finance Documents and applicable law and regulation;
- (iii) not to incur Financial Indebtedness (other than certain categories of Permitted Financial Indebtedness and, in the case of Subordinated Debt, only to the extent that Subordinated Debt is entered into with another member of the Affinity Group) to any member of the Affinity Group or any Affiliate or be a lender in respect of Financial Indebtedness of any member of the Affinity Group or any Affiliate unless the occurrence of such Financial Indebtedness is in compliance with the Restricted Payment Condition;
- (iv) not to declare, make or pay any Restricted Payments otherwise than as permitted under the Finance Documents and only out of monies received by it, directly or indirectly, from AWL which have been properly paid by AWL as a Distribution or as set out under the CTA; and
- (v) not to take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Security Trustee.

Additional Covenants of AWL

Additionally, AWL undertakes, among other things:

- (i) *Restricted Business of AWL and the Existing Dormant Subsidiaries*: (a) to ensure that the nature of its business is limited to the Business; and (b) to procure that none of the Existing Dormant Subsidiaries will carry on or transact any business or other activity, own any assets or incur any liabilities other than (A) as required by applicable law or regulation; or (B) as required in connection with the winding-up, liquidation or dissolution of such company;
- (ii) *Business identity*: to conduct its Appointed Business in the name of AWL or under any such other name or names (but not through a separate legal entity) as AWL shall determine and to ensure that separation of the Financing Group from any member of the Non-Financing Group (or Associate thereof other than members of the Financing Group) is maintained at all times by holding out members of the Financing Group (including any divisions thereof) as separate legal entities from members of the Non-Financing Group (or Associate thereof) other than members of the Financing Group (provided always that nothing shall prohibit or restrict the use of “Affinity” in the name of any member of the Affinity Group);
- (iii) *Operation of business*: (A) not to permit, agree to or recommend any suspension of all or a material part of the operation of its Appointed Business, or the abandonment of all or a material part of its Appointed Business, unless such suspension or abandonment is in accordance with the Instrument of

Appointment; and (B) if it exceeds the Permitted Non-Appointed Business Limits, to ensure that it complies with Permitted Non-Appointed Business Limits within six months of the date on which the Permitted Non-Appointed Business Limits are first exceeded so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date immediately following the expiry of the relevant six-month period;

- (iv) *Compliance with Instrument of Appointment*: to comply in all material respects with the Instrument of Appointment save to the extent that Ofwat has waived or approved such non-compliance;
- (v) *Amendments to Instrument of Appointment*: save where such amendment or variation is mandatorily required by law or regulation, not to agree to any amendment or variation of the Instrument of Appointment which would reasonably be expected to have a Material Adverse Effect;
- (vi) *Non-Executive Directors*: to maintain at least three non-executive directors who are not employees or directors of any Associate (save as disclosed in writing to the Security Trustee on the Closing Date or as otherwise approved by the Security Trustee), provided that it shall not be a breach of this undertaking where any vacancies arise out of exceptional circumstances or of the resignation or removal of any such director where a new non-executive director is appointed within six months of the date on which such resignation or removal becomes effective;
- (vii) *Environmental Matters*: to comply with all relevant Environmental Laws and Environmental Approvals applicable to it where failure to do so would be reasonably likely to have a Material Adverse Effect and to notify the Security Trustee, as soon as reasonably practicable upon becoming aware of the same, of any Environmental Claim that is current which if substantiated, is reasonably likely either to have a Material Adverse Effect or result in any material liability for a Finance Party;
- (viii) *Insurances*: to effect and maintain those insurances as are required under the CTA;
- (ix) *Outsourcing policy*: in relation to: (A) the procurement process for and the terms of any Outsourcing Agreements; and (B) decisions in relation to whether or not to outsource functions, to act in accordance with (i) Good Industry Practice; and (ii) all applicable laws and regulations (including Public Procurement Rules, to the extent applicable to the relevant Outsourcing Agreement);
- (x) *Performance obligations*: to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment and, in respect of performance obligations which are either passed on to a Contractor or are outsourced, it has retained sufficient control to discharge its obligations under the Instrument of Appointment;
- (xi) *Transfer scheme*:
 - (A) following receipt of notice of termination of the Instrument of Appointment, use its reasonable endeavours to ensure that (subject to its obligations under the WIA):
 - (a) a Transfer Scheme is agreed between AWL, the transferee and the Secretary of State for the Environment or Ofwat on or before the later to occur of the date falling (X) six months after the date on which the notice is received; and (Y) two years prior to the expiration of such notice; and
 - (b) any such Transfer Scheme will not be materially prejudicial to the Secured Creditors;
 - (B) use all reasonable endeavours to ensure (so far as permitted by any applicable law and regulation and any binding confidentiality obligations entered into in good faith for bona fide commercial reasons) that the Security Trustee is kept fully informed of the consultation process

with Ofwat and is consulted with in relation thereto if AWL becomes subject to any Transfer Scheme; and

- (C) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee;
- (xii) *Interim Price Determinations*: as soon as reasonably practicable, to apply to Ofwat for an IDOK when permitted under the Instrument of Appointment, in all circumstances where it would be prudent and in the best commercial interests of AWL to do so; and
- (xiii) *Charging schemes*: 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 or other regulatory requirements, to enable AWL 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.

Additional covenants of AWL, the Programme Issuer and the Issuer

Additionally, each of AWL, the Programme Issuer and the Issuer undertake, among other things:

- (i) *Credit rating*: for as long as there is Senior Debt outstanding, to use its reasonable endeavours to ensure that it maintains a published credit rating of Notes (or, in the case of the Programme Issuer, the Bonds) with at least two of the Rating Agencies, in each case, of Investment Grade;
- (ii) *Restricted Payments*: only to:
 - (a) implement Deferrals of K at a time when no Trigger Event is subsisting, no Event of Default is subsisting or if required by Ofwat;
 - (b) other than in the case of Permitted Post Closing Events or any Intra-Group Debt Service Distribution, make any payment in respect of Subordinated Debt or pay any Distribution which would be a Restricted Payment if each of the following requirements is met:
 - (1) in the case of dividends only, the payment is made after a duly constituted board meeting has been held approving such dividend;
 - (2) the aggregate amount of any such payment(s) that may be paid is no higher than the Proposed Payment Amount (as defined below);
 - (3) on the date of such payment:
 - (A) no withdrawals have been made from the Programme Issuer's or, as the case may be, the Issuer's Debt Service Reserve Accounts pursuant to paragraph 8.6.2(ii) of Schedule 10 (Cash Management) of the CTA and no drawings are outstanding under the DSR Liquidity Facilities, other than Standby Drawings;
 - (B) each of the Senior RAR and the Class A RAR for each Calculation Date (after deducting an amount equal to the proposed payment(s) (the "**Proposed Payment Amount**") from available cash), as certified by the Programme Issuer, the Issuer and AWL in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to: (a) in the case of the Senior RAR, 0.85:1; and (b) in the case of the Class A RAR, 0.75:1;
 - (C) the Proposed Payment Amount is not greater than the Available Senior Headroom or the Available Class A Headroom; and

- (4) no Default is subsisting or would result from the payment and the Repeated Representations are, and will following such payment, remain correct in all material respects 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 of the WIA or other satisfactory security has been established that will not be materially prejudicial to the interests of Class A Creditors or Class B Creditors (as the case may be);
- (iii) *Auditors*: to only replace the Auditors without the prior written approval of the Security Trustee (such consent not be unreasonably withheld) if the replacement Auditors are a firm of independent public accountants of international standing and to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;
- (iv) *Year end*: not to change its financial year end without the prior written consent of the Security Trustee (such consent not to be unreasonably withheld) unless Ofwat requires the relevant financial year to be changed (in which case the Transaction Agent 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); and
- (v) *Financial Indebtedness*: not to enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into such Authorised Credit Facility:
- (a) the sum of:
- (1) the aggregate nominal outstanding Financial Indebtedness of the Financing Group which has an expected final maturity falling within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later) (any final maturity date falling within such period being a “**Relevant Final Maturity Date**”) expressed as:
- (A) for the purposes of (X) below, a percentage of RCV, where:
- (1) if the Relevant Final Maturity Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Final Maturity Date indexed to the Relevant Final Maturity Date at the actual rate of inflation (to the extent known) for the period from the date on which Ofwat published such RCV figure and thereafter to the extent not known at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such period (the “**Relevant Inflation Rate**”); and
- (2) if the Relevant Final Maturity Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Final Maturity Date at the Relevant Inflation Rate,
- (B) for the purposes of (Y) below, an amount in sterling; and
- (2) the aggregate accretions by way of indexation at the Relevant Inflation Rate to each Relevant Termination Date under any RPI Linked Hedging Agreement which:
- (A) may be terminated at the election of the applicable Hedging Counterparty (taking into account the earliest optional termination date only);

- (B) has a scheduled termination date; or
- (C) will terminate pursuant to any mandatory termination provision specified in the relevant Hedging Agreement,

in each case within the 24 month period specified in (v)(a)(1) above (any termination date falling within such period being a “**Relevant Termination Date**”) each expressed as:

- (D) for the purposes of (X) below, a percentage of RCV where:
 - (1) if the Relevant Termination Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Termination Date indexed to the Relevant Termination Date at the actual rate of inflation (to the extent known) for the period from the date on which Ofwat published such RCV figure and thereafter to the extent not known at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such Relevant Termination Date; and
 - (2) if the Relevant Termination Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Termination Date at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such 24 month period; and

- (E) for the purposes of (Y) below, an amount in sterling,

shall not exceed the greater of (X) 20 per cent. and (Y) £250,000,000 (indexed) provided that if upon entering into an Authorised Credit Facility in reliance on (Y), the Financial Indebtedness incurred pursuant to this paragraph (a) may only be Financial Indebtedness which is not inflation-linked Financial Indebtedness; and

- (b) the sum of:

- (1) the aggregate nominal outstanding Financial Indebtedness of the Financing Group which has an expected final maturity falling within the period from one Periodic Review to the next Periodic Review (any final maturity date falling within such period being a “**Relevant Final Maturity Date**”) expressed as a percentage of RCV where:
 - (A) if the Relevant Final Maturity Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Final Maturity Date indexed to the Relevant Final Maturity Date at the actual rate of inflation (to the extent known) for the period from the date on which Ofwat published such RCV figure and thereafter to the extent not known at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such period (the “**Relevant Inflation Rate**”);
 - (B) if the Relevant Final Maturity Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Final Maturity Date at the Relevant Inflation Rate,
- (2) the aggregate accretions by way of indexation at the Relevant Inflation Rate to each Relevant Termination Date under any RPI Linked Hedging Agreement which:

- (A) may be terminated at the election of the applicable Hedging Counterparty (taking into account the earliest optional termination date only);
- (B) has a scheduled termination date; or
- (C) will terminate pursuant to any mandatory termination provision specified in the relevant Hedging Agreement,

in each case within the period from one Periodic Review to the next Periodic Review (any termination date falling within such period being a “**Relevant Termination Date**”) each expressed as a percentage of RCV where:

- (1) if the Relevant Termination Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Termination Date indexed to the Relevant Termination Date at the actual rate of inflation (to the extent known) for the period from the date on which Ofwat published such RCV figure and thereafter to the extent not known at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such Relevant Termination Date; and
- (2) if the Relevant Termination Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Termination Date at the rate of inflation assumed by AWL in its most recent AWL Business Plan for such Periodic Review Period,

does not exceed 40 per cent. (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years),

and, for the purposes of these paragraphs (v)(a) and (b) above, “expected maturity” shall include any Financial Indebtedness that would, in the ordinary course, be expected to be repaid in full as a result of Subordinated Step-up Fee Amounts or other extraordinary payment being required to keep such Financial Indebtedness outstanding.

Additional Covenants of the Programme Issuer and the Issuer

Additionally, each of the Programme Issuer and the Issuer undertake, among other things:

- (i) *Restricted Business of the Programme Issuer and the Issuer*: to restrict its business to certain matters in accordance with the Finance Documents;
- (ii) *Listing*: to use reasonable endeavours to procure and maintain the admission of all Bonds and the Notes which are intended to be listed in its name for trading on the London Stock Exchange or, in the case of the Bonds, such other stock exchange as approved by the Dealers under the Dealership Agreement until none of the relevant listed Bonds or the Notes are outstanding;
- (iii) *Notification of non-payment and late payment*: to procure that the relevant Principal Paying Agent notifies the Bond Trustee or the Note Trustee (as applicable) forthwith if it does not receive the full amount in the correct currency in respect of any payment in respect of the Bonds or the Notes, as the case may be, on or before the due date for such payment, and to give notice to the relevant Bondholders or the Noteholders (as applicable) if any sum due in respect of the relevant Bonds or the Notes (as the case may be) is paid after the due date for such payment;

- (iv) *Notices to Bondholders and Noteholders*: to give notice of certain events to the Bond Trustee and Bondholders or the Note Trustee and Noteholders, as the case may be, in relation to payments in respect of the Bonds and the Notes, respectively; and
- (v) *Liability to Tax*: to give notice to the Security Trustee and/or the Bond Trustee and/or the Note Trustee promptly upon becoming aware of deduction or withholding of tax in respect of payments due in respect of Bonds or any Notes (as the case may be), becoming subject to tax on a basis which is materially different than that assumed in the AWL Business Plan or if a Hedging Counterparty is required to make a deduction or withholding in respect of any payment due under the relevant Hedging Agreement.

Financial Covenants

- (i) AWL undertakes, among other things:
 - (a) *Financial Ratios*: to deliver, with each Compliance Certificate a statement setting out details of the calculation of the following ratios calculated as at the Calculation Date immediately prior to the date of the delivery of that Compliance Certificate:
 - (1) the Class A ICR for each Test Period;
 - (2) the Class A Adjusted ICR for each Test Period;
 - (3) the Senior Adjusted ICR for each Test Period;
 - (4) a Class A Average Adjusted ICR for each Test Period;
 - (5) the Senior Average Adjusted ICR for each Test Period;
 - (6) the Class A RAR at any Calculation Date; and
 - (7) the Senior RAR at any Calculation Date; and
 - (b) *Price Determination*: at each Periodic Review and on making each IDOK application, to apply to Ofwat for a price determination which, in the reasonable opinion of the AWL directors, would allow, at a minimum, a credit rating the same as the original credit rating in respect of the Class A Bonds and the Notes from each of the Rating Agencies.
- (ii) Each of AWL, the Programme Issuer and the Issuer shall maintain (if appropriate):
 - (a) committed DSR Liquidity Facilities in respect of Class A Debt which, when aggregated with all amounts (including the value of any Authorised Investments commitments funded from such amounts) standing to the credit of the Class A Debt Service Reserve Accounts are not less than the Class A Required Balance; and
 - (b) committed DSR Liquidity Facilities in respect of Class B Debt which, when aggregated with all amounts (including the value of any Authorised Investments commitments funded from such amounts) standing to the credit of the Class B Debt Service Reserve Account are not less than the Class B Required Balance.
- (iii) AWL undertakes to maintain an O&M Reserve and/or O&M Reserve Facility available for drawing which together with amounts standing to the credit of any O&M Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts) amount to not less than the O&M Reserve Required Amount.

Trigger Events

The CTA sets out certain Trigger Events which include (subject to agreed exceptions, materiality qualifications, grace periods and remedies and as more particularly provided in the CTA) the occurrence of any of the following events:

(i) *Financial Ratios*

- (a) the Class A RAR at any Calculation Date is or is estimated to be more than 0.75:1;
- (b) the Senior RAR at any Calculation Date is or is estimated to be more than 0.90:1;
- (c) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;
- (d) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;
- (e) the Class A Average Adjusted ICR for any Test Period is or is estimated to be less than 1.4:1; or
- (f) the Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1.

(ii) *Debt Service Payment Account Shortfall*

The failure by AWL to pay the Monthly Payment Amount within five Business Days following the date on which such payment was scheduled to be made.

(iii) *Liquidity for Capital Expenditure and Working Capital*

If, as at any Calculation Date, the aggregate of:

- (a) AWL'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 12 months; and
- (b) Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12 month period,

is less than the aggregate of:

- (1) AWL's forecast Capital Expenditure projected for the next 12 month period;
- (2) AWL's forecast working capital requirements projected for the next 12 month period; and
- (3) the amount the Programme Issuer, the Issuer or, as the case may be, AWL estimates, in its reasonable opinion, is equal to the net amount payable by the Programme Issuer, the Issuer or, as the case may be, AWL to a Hedging Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(iv) *Required Balance of DSR Liquidity Facilities and Drawdown on O&M Reserve Facilities*

If, at any time, the aggregate of all commitments under the DSR Liquidity Facilities in respect of Class A Debt and Class B Debt and all amounts standing to the credit of the Debt Service Reserve Accounts of the Programme Issuer and the Issuer (including the value of any Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Accounts) 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).

If, at any time, AWL withdraws funds from AWL's O&M Reserve Account or a drawing is made under an O&M Reserve Facility (excluding any Standby Drawing) to pay AWL's operating or maintenance expenditure.

(v) *Enforcement Order*

An Enforcement Order is issued under Part II, Chapter II of the WIA against AWL which would have a Material Adverse Effect if not complied with.

(vi) *Circumstances leading to a Special Administration Order*

Any indication arising from notices and/or correspondence issued by, or during correspondence with, Ofwat or any other circumstances of which AWL is aware that would reasonably be expected to lead to an application by Ofwat or the Secretary of State for the Environment for a Special Administration Order to be made in respect of AWL.

(vii) *Termination of Instrument of Appointment*

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(viii) *Event of Default*

An Event of Default is continuing.

(ix) *Referral regarding Shipwreck Clause*

A referral is made under sub-paragraph 13.3 of Condition B in Schedule 2 (*Shipwreck*) to the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.

(x) *Audit Qualification*

The Auditors qualify their report on any audited Statutory Accounts of any member of the Financing Group in a material manner due to which the financial ratios calculated in accordance with the CTA may not reflect the true position of AWL in a materially adverse manner.

(xi) *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) or legislation relating to or impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation would (if enacted) lead to a breach of the financial ratios set out above, in each case taking into account any actions available to AWL to mitigate or cure the same.

(xii) *Modification or Replacement of Instrument of Appointment*

If within six months of an announcement setting out clear proposals (including a related timetable to effect such proposals) by Ofwat for the modification or replacement of the Instrument of Appointment which, if implemented, would have a Material Adverse Effect, AWL 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.

(xiii) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(xiv) *Adverse Final Determination of K*

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect (taking into account any remedies available to AWL).

(xv) *Credit Rating Downgrade*

The solicited long-term credit rating of any Class A Debt by at least two Rating Agencies (i) is ascribed at or falls to BBB (Fitch) (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent), Baa2 (Moody's) or BBB (S&P) (or equivalent rating with any other Rating Agency) or below; or (ii) is withdrawn at the request of any Obligor (such credit rating being the "**Trigger Credit Rating**").

(xvi) *Super Senior RPI Linked Hedging Agreements*

On any Calculation Date, the aggregate amount of all accretions by indexation to the original notional amounts of any Super Senior RPI Linked Hedging Agreements exceeds the greater of (i) 6 per cent. of RCV; or (ii) £60,000,000 (indexed).

In connection with any new Authorised Credit Facility, the Transaction Agent may agree with the relevant Authorised Credit Provider to disapply any of the Trigger Events in respect of the terms of such new Authorised Credit Facility and no consent of the Secured Creditors shall be required in respect of such disapplication provided that their rights are not affected.

Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived or deemed remedied in accordance with the CTA, certain consequences will result, including:

- (i) no Obligor may make Restricted Payments and, in respect of Deferrals of K, if these have not yet been implemented, AWL must stop their implementation and must not declare any Deferrals of K;
- (ii) no Obligor may purchase or otherwise acquire any Financial Indebtedness of the Financing Group (including, without limitation, the Bonds or the Notes);
- (iii) AWL must provide such information as to the relevant Trigger Event (including its causes and effects) as may be properly requested by the Security Trustee;
- (iv) AWL must discuss with the Security Trustee (at a mutually convenient time and location) its plans for appropriate remedial action and the timetable for implementation of such action, and AWL and the Security Trustee shall negotiate in good faith to agree a Remedial Plan, and any Remedial Plan must then be implemented by AWL;
- (v) the Security Trustee may commission an Independent Review to be undertaken on a timetable stipulated by the Security Trustee to be conducted by technical advisers to the Security Trustee or such other person as the Security Trustee may decide (in each case, subject to prior consultation with AWL) to examine the causes of the relevant Trigger Event and recommend appropriate measures;
- (vi) AWL, in its capacity as Transaction Agent, must (so far as permitted by any applicable law and regulation, any binding confidentiality obligations entered into in good faith for bona fide commercial reasons and the retention of legal privilege) cooperate with the person appointed to prepare the Independent Review; and
- (vii) subject to prior notice to the Transaction Agent, if practicable, the Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat at any time.

Trigger Event Remedies

At any time when the Transaction Agent believes that a Trigger Event has been remedied in accordance with the detailed provisions of the CTA, it must serve notice on the Security Trustee to that effect, and the Security Trustee must respond within five days (or such longer period as it may reasonably agree with the Transaction Agent) 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 will continue to be a Trigger Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

Events of Default

The CTA contains a number of events of default (the “**Events of Default**”) which are Events of Default under each Finance Document (other than, in respect of the Hedging Counterparties, the Hedging Agreements). Subject, in some cases and where not otherwise stated below, to agreed exceptions, materiality thresholds and qualifications, the Reservations, grace periods and remedies, Events of Default include:

- (i) non-payment by any Obligor of amounts payable under the Finance Documents;
- (ii) non-compliance with certain other obligations under the Finance Documents;
- (iii) material misrepresentation;
- (iv) non-payment of amounts payable (after the expiry of any originally applicable grace period) or acceleration of amounts in respect of any Financial Indebtedness other than in respect of the Finance Documents having a notional outstanding amount in excess of the greater of (a) 0.1 per cent. of RCV; or (b) £1,000,000 (indexed) (or its Equivalent Amount);
- (v) any amount of its Financial Indebtedness in excess of (a) 0.1 per cent of RCV; or (b) £1,000,000 (indexed) (or its Equivalent Amount): (c) is declared due and payable prior to its specified maturity, or (d) is capable of being declared by a creditor to be prematurely due and payable prior to its specified maturity, in each case, as a result of an event of default (howsoever described);
- (vi) insolvency of any Obligor or the commencement of insolvency proceedings against any Obligor or, in relation to AWL, an insolvency event or insolvency proceedings as set out further in the CTA occur(s) in relation to AWL;
- (vii) transfer, revocation or termination of the Instrument of Appointment;
- (viii) insufficient liquidity to meet AWL’s forecast Capital Expenditure and working capital requirements projected for the next six month period;
- (ix) any Obligor repudiating a Finance Document or it becoming unlawful or ineffective to perform material obligations under any Finance Document;
- (x) the security granted by each Obligor (other than AWL) ceasing to be in full force and effect in respect of all or substantially all of the assets of such Obligor (unless otherwise consented to by the Security Trustee);
- (xi) certain governmental action which would be reasonably likely to have a Material Adverse Effect;
- (xii) failure by any Obligor to comply with any judgment or order of a competent court being made, obtained or levied against the assets of any Obligor in respect of sums exceeding the greater of (i) 0.1 per cent. of RCV; or £1,000,000 (indexed) (or its Equivalent Amount) except where such judgment is being appealed in good faith in a higher court;

- (xiii) AWL ceasing or threatening to cease to carry on the Appointed Business (or any substantial part thereof);
- (xiv) 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;
- (xv) the Class A ICR for any Test Period is or is estimated to be less than 1.60:1;
- (xvi) the Senior RAR is or is estimated to be more than 0.95:1;
- (xvii) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1:1; and/or
- (xviii) an AWL Change of Control occurs.

The CTA provides that if an Event of Default pursuant to paragraph (xvi) above occurs solely as a result of the introduction or implementation of a Different Price Control Mechanism (as defined in the definition of “RCV”) (a “**Senior RAR Restructuring Event**”), then the Senior RAR Restructuring Event will only give rise to a Trigger Event occurring and accordingly:

- (a) subject to the paragraph (c) below, no Event of Default shall occur hereunder as a result thereof;
- (b) the Trigger Event directly caused by the Senior RAR Restructuring Event will continue thereafter until such time as the Trigger Event is amended, waived or remedied in accordance with the provisions set out in the CTA and the STID; and
- (c) if on or after the date falling on the later of 12 months after the date of the occurrence of the Trigger Event, the Trigger Event has not been amended, waived or remedied in accordance with the provisions set out in the CTA and the STID, the Senior RAR Restructuring Event shall with effect from such date constitute an Event of Default pursuant to paragraph (xvi) above.

In the period of 12 months following the occurrence of a Senior RAR Restructuring Event, AWL can seek to agree a Replacement Value (as provided for in the definition of RCV) determined in accordance with a methodology agreed by the Security Trustee (acting on the instructions of the Majority Creditors).

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 section “*Entrenched Rights and Reserved Matters*” above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see section “*Security Trust and Intercreditor Deed*” above).

Immediately upon the declaration of an Event of Default, a Standstill Period will commence in accordance with the STID (see section “*Security Trust and Intercreditor Deed – Standstill*” above).

Cash Management

Accounts

The CTA requires AWL to open and maintain the following Accounts with the Account Bank:

- (a) certain Operating Accounts;
- (b) an O&M Reserve Account; and
- (c) a Debt Service Payment Account.

Additionally, AWL may open and maintain a Cash Cover Account pursuant to the terms of an Authorised Credit Facility pursuant to which a letter of credit facility has been made available to AWL into which any amounts in respect of “cash cover” (as defined in the relevant Authorised Credit Facility) shall be deposited in

accordance with the terms thereof. Any amounts standing to the credit of a Cash Cover Account shall be applied only in accordance with the terms of the relevant Authorised Credit Facility and the STID.

The Programme Issuer is required to open and maintain the following Accounts with the Account Bank:

- (a) a Transaction Account;
- (b) a Class A Debt Service Reserve Account;
- (c) a Class B Debt Service Reserve Account (if required); and
- (d) in the event it raises Permitted Financial Indebtedness denominated in a currency other than Sterling, a debt service account and a debt service reserve account denominated in such currency.

The Issuer is required to open and maintain the following Accounts with the Account Bank:

- (a) a Transaction Account; and
- (b) a Class A Debt Service Reserve Account.

Each of the Programme Issuer, the Issuer and AWL may also open and maintain one or more accounts (each a “**Swap Collateral Account**”) into which any collateral provided by a Hedging Counterparty or guarantor thereof shall be deposited upon the relevant trigger occurring for the provision of such collateral to support the obligations of the Hedging Counterparty or guarantor under the terms of the appropriate Hedging Agreement.

AWHL is required to 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 (other than any Cash Cover Accounts opened at another bank or financial institution in accordance with the Senior Facilities Agreement or any other Authorised Credit Facility or any account in relation to an Authorised Investment) will be held with the Account Bank pursuant to the Account Bank Agreement or with another entity where AWL can show that such further bank accounts are desirable for the operation of AWL’s permitted business and are subject to a first fixed Security Interest under the Security Agreement. Each Obligor will agree in the CTA to comply with the Account Bank Agreement and the provisions of the CTA applying to its Accounts.

Operating Accounts

Under the CTA, AWL shall ensure that all of its revenues (other than any interest or Income on Authorised Investments which shall be credited to the Account from which the relevant Authorised Investment was made) are paid into an Operating Account. AWL may hold separate operating accounts for its Appointed Business and each of the trades entered into in connection with its Permitted Non-Appointed Business save that it will be permitted to receive its revenues into its existing collection accounts with a bank other than the Account Bank where the balance of such collection accounts is transferred into an Operating Account on the close of business on each Business Day.

AWL may make transfers from one Operating Account to another in its sole discretion at any time.

The Operating Accounts are the principal current accounts of AWL through which all operating and Capital Expenditure or any Taxes incurred by AWL and (subject to the terms of the Finance Documents) payments in respect of the Financial Indebtedness of the Financing Group which are not permitted to be satisfied out of monies credited to the Debt Service Payment Account may be cleared (including other permitted unsecured debt of AWL).

All operating expenditure of AWL will be funded (a) through payments made directly into the Operating Accounts and (b) through drawings made by AWL under any Authorised Credit Facility or other Permitted Financial Indebtedness as and when required and permitted by the Finance Documents.

Capital Expenditure of AWL may initially be partially financed by drawings made by AWL under the Capital Expenditure Facility. Such amounts will be paid by AWL into the Operating Accounts. On an ongoing basis, Capital Expenditure will be funded out of monies standing to the credit of 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 are insufficient, an O&M Reserve Account.

Transaction Accounts

Each of the Programme Issuer and the Issuer shall ensure that all payments received by it, and not otherwise required to be applied pursuant to the CTA, are paid into its respective Transaction Account.

AWL's O&M Reserve Account

AWL must ensure that the proceeds of any drawing under any O&M Reserve Facility Agreement are paid directly into AWL's O&M Reserve Account or (other than a Standby Drawing) an Operating Account.

AWL 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 to enable AWL to pay amounts properly incurred and due on that date in respect of operating expenditure and Capital Expenditure requirements that cannot be met from existing balances in the Operating Accounts;
- (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 Account (including Income from any related Authorised Investments); or
- (iii) prior to making a withdrawal, AWL delivers a certificate to the Security Trustee and the Account Bank certifying that, following such proposed withdrawal, the aggregate of the O&M Reserves and all amounts then available for drawing under any O&M Reserve Facility (other than the proceeds of a Standby Drawing) are at least equal to the O&M Reserve Required Amount on the date of such withdrawal.

Debt Service Payment Account

On the Closing Date AWL directed that an amount equal to the PTP Amount was paid into the Debt Service Payment Account. The Programme Issuer directed that on the Closing Date all amounts (the "CD Amounts") stated as payable for the account of the Programme Issuer out of the proceeds of Financial Indebtedness raised on the Closing Date were applied in accordance with the Settlement and Acknowledgement Deed (including any amounts required to be paid in connection with the rolling of any Existing Hedging Agreements on or about the Closing Date in order to meet the requirements of the Hedging Policy) and, to the extent required, were on lent by the Programme Issuer to AWL under the Programme Issuer/AWL Loan Agreement and paid into the Debt Service Payment Account. The CD Amounts were promptly upon being credited to the Debt Service Payment Account and applied in accordance with the Settlement and Acknowledgement Deed.

AWL is required to ensure that each transfer of or in respect of the Monthly Payment Amount from the Operating Accounts is made directly into the Debt Service Payment Account.

Subject to other provisions of the CTA, on each Payment Date, monies credited to the Debt Service Payment Account and any net amounts paid or due and payable to the Programme Issuer, the Issuer or AWL under any Interest Rate Hedging Agreement, the Programme Issuer/AWL Loan Agreement or Issuer/AWL Loan

Agreement (as the case may be) on such Payment Date and any amounts payable and standing to the credit of any account established in accordance with the requirements of the Hedging Policy shall be applied by AWL in the following order for the purpose of enabling the following payments (“**Permitted Payments**”) to be made by AWL for itself or at the direction of and on behalf of the Programme Issuer or the Issuer in the following order of priority (the “**Payment Priorities**”) without double counting provided that:

- (a) any amounts applied by AWL in directly discharging an obligation of the Programme Issuer or the Issuer shall be treated as simultaneously having discharged AWL’s corresponding obligation to pay on such Payment Date to the Programme Issuer or the Issuer under any Programme Issuer/AWL Loan Agreement or the Issuer/AWL Loan Agreement the relevant facility fees, interest, principal, indemnity amounts and other sums due to the Programme Issuer or, as the case may be, the Issuer;
- (b) the payment of any retained margin or fee of the Programme Issuer under the Programme Issuer/AWL Loan Agreements and the Issuer under the Issuer/AWL Loan Agreement shall be paid at item (vi) (in relation to advances in respect of Class A Debt) and (xi) (in relation to advances in respect of Class B Debt) and shall be transferred to the Transaction Account of the Programme Issuer or the Issuer.

The Payment Priorities shall be as follows:

- (i) *first*, (to the extent there are insufficient monies standing to the credit of all other Accounts (other than any Excluded Account) and/or available for drawing under any Liquidity Facility), in or towards satisfaction of all of the Financing Group’s operating and maintenance costs (including costs incurred in connection with the Ardleigh Arrangement (except to the extent falling due under the Finance Documents));
- (ii) *second, pro rata*, according to the respective amounts thereof in satisfaction of the fees, costs, charges, liabilities, expenses and other remuneration and indemnity payments (if any) and any other amounts payable to the Security Trustee, the Bond Trustee and the Note Trustee;
- (iii) *third, pro rata*, according to the respective amounts thereof in or towards satisfaction of:
 - (A) the fees, costs, charges, liabilities expenses and other remuneration and indemnity payments (if any) and any other amounts payable to:
 - (1) the Agents of the Programme Issuer and any agent bank and each paying agent for the Issuer;
 - (2) the Account Bank under the Account Bank Agreement;
 - (3) each Facility Agent and each Authorised Credit Provider under the relevant Authorised Credit Facility; and
 - (4) the Standstill Cash Manager,
 - (B) the costs, liabilities and expenses (if any) payable to:
 - (1) each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; and
 - (2) each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement;
- (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:

- (1) to each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement;
 - (2) to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; and
- (B) all amounts of fees, 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 Hedging Counterparty under any Super Senior 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), commitment commissions and Recurring Fees due or overdue in respect of the Class A Debt (other than any amounts payable to Hedging Counterparties pursuant to paragraph (v) or this Paragraph (vi)(B), (C) and (D), Subordinated Step-up Fee Amounts and Subordinated Authorised Loan Amounts);
 - (B) any unscheduled amounts (including termination amounts) due and payable to each Hedging Counterparty under any Super Senior Interest Rate Hedging Agreement (except to the extent required to be paid at Paragraph (xv) below);
 - (C) all scheduled amounts payable to each Hedging Counterparty under any Pari Passu Interest Rate Hedging Agreement (subject to Paragraph (vii) below);
 - (D) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedging Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to Paragraph (xv) 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 Hedging Counterparty under any Currency Hedging Agreement in respect of Class A Debt; and
 - (E) all amounts of underwriting commissions due or overdue in respect of Class A Debt;
- (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 Class A Debt (including, in respect of Finance Leases, those amounts (including any rental and capital sums) 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) (other than amounts payable to Hedging Counterparties pursuant to Paragraph (vi)(B), this Paragraph (vii)(B), (C) and (D) and Paragraph (xv));
 - (B) all principal exchange or final exchange amounts due and payable to each Hedging Counterparty under any Currency Hedging Agreement in respect of Class A Debt;
 - (C) subject to paragraph (vi)(D) any termination amounts or other unscheduled sums due and payable to each Hedging Counterparty under any Currency Hedging Agreement in

respect of Class A Debt (except to the extent required to be paid at Paragraph (xv) below); and

- (D) any unscheduled amounts (including termination amounts) due and payable to each Hedging Counterparty under any Pari Passu Interest Rate Hedging Agreement (except to the extent required to be paid at Paragraph (xv) below);
- (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 if the Class A Required Balance is greater than zero, *pro rata*, in payment to:
 - (A) the Class A Debt Service Reserve Account of the Programme Issuer until the aggregate balance of such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to the Programme Issuer in respect of Class A Debt is at least equal to the Programme Issuer DSR Proportion of the Class A Required Balance; and
 - (B) the Class A Debt Service Reserve Account of the Issuer until the aggregate balance of such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to the Issuer in respect of Class A Debt is at least equal to the Existing Issuer DSR Proportion of the Class A Required Balance;
- (x) *tenth*, in payment to AWL's O&M Reserve Account until the sum of the O&M Reserve (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Account) and the aggregate of amounts available to be drawn under the O&M Reserve Facilities is at least equal to the O&M Reserve Required Amount;
- (xi) *eleventh*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of:
 - (A) interest, commitment commissions and Recurring Fees due or overdue in respect of the Class B Debt (other than any Subordinated Step-up Fee Amounts);
 - (B) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedging Counterparty under any Currency Hedging Agreement in respect of Class B Debt and (subject to paragraph (xv) 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 Hedging Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and
 - (C) all amounts of underwriting commissions due or overdue in respect of the Class B Debt;
- (xii) *twelfth*, *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 or final exchange amounts due and payable to each Hedging Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and

- (C) any termination amounts or other unscheduled sums due and payable to each Hedging Counterparty under any Currency Hedging Agreement in respect of Class B Debt (except to the extent required to be paid at Paragraph (xv) below);
- (xiii) *thirteenth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class B Debt;
- (xiv) *fourteenth*, in payment to the Class B Debt Service Reserve Account of the Programme Issuer until the sum of the balance thereof (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities in respect of Class B Debt is at least equal to the Class B Required Balance;
- (xv) *fifteenth*, 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 Hedging Counterparty under any Hedging Agreement which arises as a result of a default by such Hedging Counterparty or as a result of a downgrade in the credit rating of such Hedging Counterparty following any failure by the Hedging Counterparty to comply with the applicable downgrade provisions set out in the relevant Hedging Agreement (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Programme Issuer, the Issuer or AWL to enter into a transaction to replace a Hedging Agreement (in whole or in part) which shall be applied first in payment of amounts due to the Hedging Counterparty in respect of that Hedging Agreement);
- (xvi) *sixteenth*, 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 any Liquidity Facilities;
 - (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; and
 - (C) any amounts payable in respect of Class A Debt not referred to in other sub paragraphs of the Payment Priorities;
- (xvii) *seventeenth*, 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; and
 - (B) any amounts payable in respect of Class B Debt not referred to in other sub paragraphs of the Payment Priorities;

- (xviii) *eighteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class A Bonds;
- (xix) *nineteenth*, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class B Bonds; and
- (xx) *twentieth*, any excess being transferable to any Account (other than an Account of, or held for the benefit of, the Programme Issuer) at the Transaction Agent's discretion.

If at the end of any Test Period, there are amounts standing to the credit of the Debt Service Payment Account ("**Excess Funds**") (as a result of either (a) interest credited to and accruing on the Debt Service Payment Account or (b) payment of amounts into the Debt Service Payment Account in excess of the Annual Finance Charge for such Test Period), such Excess Funds will be treated and applied as a prepayment of Future Monthly Payment Amounts due in the succeeding Test Period.

If on any Payment Date there are insufficient funds available to the Obligors to pay in full all Secured Liabilities falling due for payment on such date, then the Cash Manager shall ensure that (a) no amounts are applied in discharging any liabilities due to a Secured Creditor unless on the date such amounts are applied all sums then due and payable to each prior ranking Secured Creditor have first been discharged in full; and (b) where funds available to the Obligors are insufficient to meet all of the payments falling due to be made on such date in any sub paragraph of the Payment Priorities, such funds shall be divided *pro rata* between those payments.

Disapplication of Payment Priorities

The Payment Priorities set out in paragraphs (i) to (xx) inclusive and any reference in the Common Documents to payments being made in accordance with or pursuant to the Payment Priorities will not apply to (a) the CD Amounts, which were applied on the Closing Date in accordance with the Settlement and Acknowledgement Deed, (b) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied (1) by way of loan to AWL pursuant to a Programme Issuer/AWL Loan Agreement or an Issuer/AWL Loan Agreement; or (2) in repayment or prepayment of any then existing Financial Indebtedness of the Financing Group, in each case, to the extent permitted by the CTA, (c) any mandatory prepayment required to be funded from the Operating Accounts pursuant to paragraph 5.10 of Schedule 10 in the Common Terms Agreement; or (c) any return of collateral or premium or up front payment in relation to a Hedging Agreement contemplated in paragraph (xv) above which will be paid to the relevant Hedging Counterparty directly.

Debt Service Reserve Accounts

AWL must (subject to and in accordance with the Payment Priorities) transfer monies standing to the credit of the Debt Service Payment Account to the Class A Debt Service Reserve Accounts of the Programme Issuer and/or Issuer and/or the Class B Debt Service Reserve Account of the Programme Issuer (to the extent one is maintained) as required to maintain at least the Required Balance, and in each case in accordance with the CTA.

AWL must procure that (save for any date upon which a drawing is to be made under a DSR Liquidity Facility or out of a Debt Service Reserve Account to make a payment into the Debt Service Payment Account in respect of Class A Debt or Class B Debt) on any Payment Date:

- (a) the aggregate of (i) the committed DSR Liquidity Facilities in respect of Class A Debt; and (ii) all amounts standing to the credit of the Class A Debt Service Reserve Accounts (including the value of any Authorised Investments funded from amounts standing to the credit of the Class A Debt Service Reserve Accounts), are at least equal to the Class A Required Balance; and

- (b) the aggregate of (i) the committed DSR Liquidity Facilities in respect of Class B Debt and (ii) all amounts standing to the credit of the Class B Debt Service Reserve Account (to the extent one is maintained) (including the value of any Authorised Investments funded from amounts standing to the credit of the Class B Debt Service Reserve Account) (after deducting from such credit balance all amounts that are required to be taken into account in order to satisfy the Class A Required Balance), are at least equal to the Class B Required Balance.

AWL, the Programme Issuer and the Issuer shall procure that, subject to the terms of the DSR Liquidity Facility Agreements, a standby drawing is made under the relevant DSR Liquidity Facilities where any DSR Liquidity Facility Provider ceases for whatever reason, to have the LF Provider Minimum Rating or fails to renew its commitment upon the expiry of its term.

The Programme Issuer or the Issuer may only withdraw amounts from a Debt Service Reserve Account in certain circumstances:

- (a) where amounts standing to the credit of the Debt Service Payment Account are insufficient to pay the amount of the Scheduled Debt Service in full;
- (b) to the extent that they are being used to repay a Standby Drawing to a DSR Liquidity Facility Provider;
- (c) if prior to such withdrawal the Programme Issuer or the Issuer delivers a certificate to the Security Trustee and the Account Bank certifying that following the making of such withdrawal the aggregate of the amounts standing to the credit of the applicable Debt Service Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Account) and available for drawing under the DSR Liquidity Facilities in respect of Class A Debt and Class B Debt is at least equal to the Required Balance on the date of such withdrawal; or
- (d) to the extent that they represent Income from amounts standing to the credit of the Debt Service Reserve Accounts and are transferred into the Debt Service Payment Account.

Authorised Investments

AWL, the Programme Issuer and the Issuer are permitted, in accordance with the CTA, to invest in certain Authorised Investments from amounts standing to the credit of any of the Accounts.

Such Authorised Investments include:

- (a) securities issued by the government of the United Kingdom;
- (b) demand or time deposits, certificates of deposit and short term unsecured debt obligations, including commercial paper, provided that the relevant entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Authorised Investment Minimum Rating;
- (c) any other obligations, provided that in each case the relevant investment has the Authorised Investment Minimum Rating;
- (d) any money market funds or equivalent investments which have a rating of at least A by S&P, A3 by Moody's and A by Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) (provided that such rating shall not be required from any such Rating Agency that is not then rating the Bonds and the Notes);
- (e) any deposit made with the Account Bank; or
- (f) any Bonds or Notes purchased for bona fide purposes as part of prudent treasury management policies.

Cash Management during a Standstill Period

Upon notice from the Security Trustee that a Standstill has occurred, the Standstill Cash Manager will act as Standstill Cash Manager in accordance with the CTA and the STID, from such time and until instructed otherwise by, or until such instruction is withdrawn by the Security Trustee, and shall act upon the instructions of the Security Trustee.

In the case of any conflict between any instructions given to the Standstill Cash Manager by the Security Trustee and any other person, the instructions of the Security Trustee will prevail.

Following the commencement of a Standstill Period and for so long as it continues, and provided that no Enforcement Action (other than a Permitted Share Pledge Acceleration and other than any Independent Enforcement Action) has occurred:

- (a) AWL shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager which shall control payments into and out of the Accounts in place of AWL, the Programme Issuer or the Issuer;
- (b) the Standstill Cash Manager shall pay all operating expenditure as and when it falls due; and
- (c) the Standstill Cash Manager shall on a monthly basis calculate the aggregate of all payments falling to be made, or expected to fall 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 sub paragraph of the 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:

- (i) any payments falling to be made within a category of payment falling within a category of payment falling within a Shortfall Paragraph shall be satisfied by a payment of the pro rata share of that payment calculated as described above and the balance of the payment not made shall remain outstanding; and
- (ii) no payments falling in a category which falls after a Shortfall Paragraph shall be made but such payments shall remain outstanding.

Following the commencement of a Standstill Period and until such Standstill Period is terminated in accordance with the STID, the calculation of the Annual Finance Charge as the same pertains to any Finance Lease shall be adjusted in accordance with the terms of such Finance Lease.

Security Agreement

Security

On the Closing Date, each Obligor, entered into the security agreement (the “**Security Agreement**”) with the Security Trustee pursuant to which AWHL guarantees the obligations of each other Obligor under the Finance Documents and each of AWL, the Programme Issuer and the Issuer guarantees the obligations of each other

(but not AWHL) under the Finance Documents, in each case to the Security Trustee as security trustee for the Secured Creditors on the terms set out in the Security Agreement and the STID.

Each Obligor secured its property, assets and undertakings to the Security Trustee as trustee for the Secured Creditors. However, in respect of AWL, the creation, perfection and enforcement of such security is subject to the WIA, the Instrument of Appointment and requirements thereunder.

The Security Agreement, to the extent applicable, incorporates the provisions of the CTA and is subject to the STID.

The security constituted by the Security Agreement is expressed to include, amongst other things:

- (i) first fixed charges over:
 - (a) the shares in AWL, the Programme Issuer and the Issuer;
 - (b) each Obligor's right, title and interest from time to time in and to certain land and other real property and the proceeds of any disposal thereof;
 - (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 present and future bank accounts;
 - (e) certain Intellectual Property Rights owned by each Obligor;
 - (f) uncalled capital and goodwill;
 - (g) the rights and benefits under each Authorised Investment;
 - (h) all shares of any person owned by the Obligor (other than the Existing Dormant Subsidiaries) including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;
 - (i) all present and future book debts and benefit of all rights, securities and guarantees of any nature; and
 - (j) all benefit in respect of certain insurances;
- (ii) an assignment of each Obligor's right in respect of all Transaction Documents; and
- (iii) a first floating charge of the whole of the undertaking of each Obligor,

except that the Security does not include any security over Protected Land (see Chapter 6 "*Regulation of the Water Industry in England and Wales – Protected Land*") or any of AWL'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 or any other applicable law.

For a description of certain limitations on the ability of AWL to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 4 "*Security Consideration – Security*" and Chapter 6 "*Regulation of the Water Industry in England and Wales – Security – Restrictions on the Granting of Security*".

Prior to an Event of Default, notices of assignment will only be given to the relevant counterparties to the Transaction Documents that are assigned and to the insurers with whom AWL has taken out insurance in accordance with the requirements of the CTA (subject to certain agreed exceptions). Following an Event of

Default, notices of assignment will be given in respect of any assigned contract or asset as requested by the Security Trustee upon the instructions of the Majority Creditors pursuant to the terms of the STID.

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.

Any Permitted Subsidiary acquired or established by AWL at any time following the Closing Date is required to accede to the Security Agreement as an Obligor.

Additional Resources Available

Authorised Credit Facilities

Subject to certain conditions being met, the Programme Issuer, the Issuer and AWL are permitted to incur certain indebtedness under the Authorised Credit Facilities. These Authorised Credit Facilities may comprise loan, hedging, finance leases, liquidity facilities and other facilities (including letter of credit facilities) subject to the terms of the CTA and the STID and subject to certain types of facilities only being available to certain Obligors (e.g. finance leases are limited to AWL; the Programme Issuer is only permitted to issue Bonds, enter into DSR Liquidity Facilities and Hedging Agreements; and the Issuer is permitted to issue Notes and enter into DSR Liquidity Facilities). Each Authorised Credit Provider is a party to the CTA and the STID and may have voting rights thereunder. The Hedging Counterparties and the Existing Authorised Credit Providers constituted Authorised Credit Providers as at the Closing Date.

AWL entered into a commitment letter with a UK investor pursuant to which, and subject to satisfaction of certain conditions precedent, the Programme Issuer issued a £95 million (approximately 10 per cent. of RCV) tranche of Class B Debt. Such Class B Debt (which were not issued as Bonds under the Programme) was issued and privately placed with the UK investor on or around the Closing Date.

Liquidity Facilities

Liquidity Facilities – General

AWL, the Programme Issuer and the Issuer are required to maintain certain Liquidity Facilities to cover certain debt and operating and maintenance payments as more fully described in “*DSR Liquidity Facilities*” and “*O&M Reserve Facility*” below. Such Liquidity Facilities will be entered into on similar terms relating to drawing and payment mechanics, rating requirements, events of default and termination provisions. A summary of such common terms is provided below.

Each Liquidity Facility Provider may be replaced at any time, provided that such Liquidity Facility Provider is replaced by a bank with the LF Provider Minimum Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement will provide that amounts repaid by the Programme Issuer, the Issuer or, as the case may be, AWL may be redrawn.

Each Liquidity Facility Agreement will provide that if 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 (a “**Non-Renewing Liquidity Facility Provider**”), the Programme Issuer, the Issuer or, as the case may be, AWL will:

- (a) use all commercially reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the LF Provider Minimum 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 Non-Renewing Liquidity Facility Provider to pay into the

relevant Debt Service Reserve Account (in the case of DSR Liquidity Facilities) of the Programme Issuer and the Existing Issuer, or into the AWL's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Non-Renewing Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

Following such non-renewal, the commitment of the relevant Non-Renewing Liquidity Facility Provider will terminate and any Standby Drawing made in respect of such Non-Renewing Liquidity Facility Provider will fall to be repaid on the date falling five years of the date on which the facility renewal was due to occur.

Each Liquidity Facility Agreement will include minimum rating requirements applicable to the Liquidity Facility Providers.

Each Liquidity Facility Agreement will provide that if any Liquidity Facility Provider does not or ceases to have the LF Provider Minimum Rating, (an "**Affected Liquidity Facility Provider**"), the Programme Issuer, the Issuer or, as the case may be, AWL:

- (a) will, in the case of a downgrade by S&P, use commercially reasonable endeavours to find a substitute Liquidity Facility Provider within 30 business days, failing which, request a Standby Drawing; and
- (b) in the case of a downgrade by Fitch and/or Moody's, may (but shall not be obliged to) appoint a substitute Liquidity Facility Provider within 30 business days, failing which may (but shall not be obliged to) request a Standby Drawing.

Unless the Liquidity Facility is terminated, accelerated or cancelled early, a Standby Drawing will generally be repayable only if (i) the relevant Liquidity Facility Provider is rated at least the LF Provider Minimum Rating, or (ii) (A) where a replacement Liquidity Facility is entered into on the terms acceptable to the Security Trustee, or, (B) in the absence of such replacement Liquidity Facility, where each of the Rating Agencies rating the Bonds and the Notes provides an affirmation of the then current ratings of the Bonds and the Notes in connection with the repayment of the Standby Drawings in the absence of the replacement Liquidity Facility, or, in the case of a Rating Agency whose then current rating policy does not allow it to issue such affirmation, where AWL, having consulted with such Rating Agency (where such Rating Agency was prepared to consult with AWL), has certified to the Security Trustee that the then current ratings of the Bonds and the Notes will not be downgraded.

No Liquidity Facility Provider shall be obliged to make facilities available if (i) the Programme Issuer or the Issuer fails to pay any sum under the Liquidity Facility Agreement or any related fee letter at the time, in the currency and in the manner specified therein unless payment is made within three Business Days; (ii) an Insolvency Event has occurred in relation to the Programme Issuer, the Issuer or AWL; or (iii) an Acceleration of Liabilities (other than a Permitted Lease Termination, a Permitted Hedging Termination or a Permitted Share Pledge Acceleration) pursuant to the STID has occurred; or (iv) a Standstill Period terminates other than pursuant to a waiver of the Event of Default which gave rise to the relevant Standstill Period by the Majority Creditors in accordance with the STID (each an "**LF Event of Default**").

Unless otherwise agreed by the Programme Issuer, the Issuer or AWL and the Security Trustee, amounts becoming available to be drawn under a DSR Liquidity Facility Agreement (whether as a result of repayment of an earlier drawing or otherwise) will be treated as providing liquidity in respect of Class A Debt and to the extent necessary to ensure that the aggregate of the amount available under DSR Liquidity Facilities in respect of Class A Debt and Class B Debt and the amount standing to the credit of the Debt Service Reserve Accounts (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Accounts) equals the Required Balance, with any surplus providing liquidity in respect of Class B Debt.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Programme Issuer, the Issuer or, as the case may be, AWL will also, in certain circumstances, 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. The Programme Issuer, the Issuer or, as the case may be, AWL will pay certain agency, arrangement and renewal fees as well as a commitment fee which will 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 Notes and the Bonds.

DSR Liquidity Facilities

Each of AWL, the Programme Issuer and the Issuer have agreed to maintain (in aggregate):

- (a) committed DSR Liquidity Facilities available for drawing in respect of Class A Debt which, when aggregated with all amounts (including the value of any Authorised Investments funded from such amounts) standing to the credit of the Class A Debt Service Reserve Accounts are not less than the Class A Required Balance; and
- (b) committed DSR Liquidity Facilities available for drawing in respect of Class B Debt which, when aggregated with all amounts (including the value of any Authorised Investments funded from such amounts) standing to the credit of the Class B Debt Service Reserve Account are not less than the Class B Required Balance.

The initial DSR Liquidity Facility will terminate on the earliest of the dates:

- (a) on which all amounts due in respect of the Senior Debt have been repaid or discharged in full;
- (b) on which final discharge under the Security Documents has occurred;
- (c) on which it is accelerated and cancelled in accordance with the acceleration provisions thereof; and
- (d) in the case of any DSR Liquidity Facility Provider who declines to accept a renewal request, which is the date falling five years after the renewal date on which such DSR Liquidity Facility Provider first declined to accept the renewal request.

O&M Reserve Facility

AWL must at all times maintain an O&M Reserve Facility to be provided by the O&M Reserve Facility Providers available for drawing which, when aggregated with amounts standing to the credit of the O&M Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Account of AWL), amount to not less than the O&M Reserve Required Amount.

Finance Leases

The Finance Documents permit AWL to enter into new Finance Leases in the future, subject to certain limits, and provided that any new Finance Lessor accedes to the CTA and the STID. No Existing Finance Lessors acceded to the CTA and/or the STID.

Hedging

The CTA provides that the Financing Group (other than AWHL) shall enter into Hedging Agreements in accordance with the Hedging Policy for the purposes of limiting the Obligors' exposure to inflation and to

fluctuations in interest rates and currencies and, for the avoidance of doubt, the Hedging Policy will not apply to energy hedging, hedging entered into in the ordinary course of business and for non speculative purposes.

The only members of the Financing Group that may enter into Hedging Agreements are AWL, the Programme Issuer and the Issuer.

The Financing Group's actual exposure to interest rate and currency risk is regularly reviewed by AWL's board and managed in accordance with prudent treasury management policies.

Existing Hedging Agreements

On or about 3 July 2012, Affinity Water Acquisitions Limited (previously known as Rift Acquisitions Limited) ("AWAL") entered into interest rate swap transactions with each Existing Hedging Counterparty in connection with the Senior Facilities Agreement (the "**Existing Swap Transactions**"). On the Closing Date, AWAL's rights and obligations in respect of the Existing Swap Transactions were transferred by way of novation to AWL and constitute the Interest Rate Hedging Transactions in respect of Class A Debt for the purposes of the CTA and the STID and are Super-Senior Interest Rate Hedging Transactions. In connection with the novation on the Closing Date, the Existing Hedging Counterparties, acceded to the CTA and the STID as Hedging Counterparties. No payment was made by AWL to any of the Existing Hedging Counterparties in connection with such novation of the Existing Swap Transactions.

Hedging Policy

Neither AWL, the Issuer nor the Programme Issuer will enter into Hedging Agreements for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis (which shall include any pre-hedging if thought appropriate).

Interest rate risk on floating rate liabilities will be hedged through a combination of cash balances, Authorised Investments and instruments such as interest rate swaps entered into by the Programme Issuer, the Issuer and/or AWL.

Treasury Transactions will be entered into in accordance with prudent treasury management policies.

Subject to certain restrictions on the timing of giving a notice of intention to exercise an optional termination of the Treasury Transactions, the Programme Issuer, the Issuer and AWL will have the right to enter into Treasury Transactions with Hedging Counterparties pursuant to which each relevant Hedging Counterparty has the right to terminate the relevant Treasury Transaction on the tenth anniversary of the effective date of such Treasury Transaction and thereafter no more frequently than at five-yearly intervals. In connection with the entry into such Treasury Transactions, the relevant Hedging Counterparty and the Programme Issuer, the Issuer or AWL, as the case may be, will undertake to use all reasonable endeavours to enter into a replacement Treasury Transaction or deposit an amount which it estimates in its reasonable opinion is equal to the net amount (if any) payable upon termination by the relevant Issuer or AWL into a designated account prior to any optional termination by the Hedging Counterparty. The aggregate notional amount and/or currency amounts (as applicable) of the Treasury Transactions which have the optional termination provisions described above will be limited to 10 per cent. of RCV determined in respect of the date on which the right of termination would next be exercisable on the basis that the RCV shall be that projected by Ofwat for the end of the period covered by its most recent determination, as adjusted for Out-turn Inflation, as adjusted to take account of any off-setting transactions.

The Financing Group will be required to maintain its total outstanding liability profile so that at all times at least 85 per cent. of its total outstanding liability profile is not exposed to interest rate volatility for the current Periodic Review Period and at least 75 per cent. of its total outstanding liability profile is not so exposed in the next Periodic Review Period.

The Financing Group will be required not to bear currency risk in respect of any foreign currency denominated debt instruments, or in respect of any foreign currency purchases which, when aggregated with all other foreign currency exposure at the time of such purchase, causes the sterling equivalent of foreign currency exposure of the Financing Group to exceed the greater of:

- (i) 0.1 per cent. of RCV; or
- (ii) £1,000,000 (indexed) (converted at the applicable FX rate).

The Financing Group may manage its exposure to inflation risk through the use of index-linked instruments where it is cost effective.

AWL, the Programme Issuer and the Issuer may only enter into a Treasury Transaction with a Hedging Counterparty who is rated no lower than the Hedging Counterparty Minimum Day 1 Rating Requirement (as defined below) as at the relevant trade date in respect of such Treasury Transaction (or who has procured a guarantee from an institution which meets the same criteria).

For these purposes, the “**Hedging Counterparty Minimum Day 1 Rating Requirement**” will mean:

- (i) in the case of Fitch, A- (long-term) (to the extent that the Fitch Appointment Right has been exercised by the Transaction Agent);
- (ii) in the case of Moody’s: A3 (long-term); and
- (iii) in the case of S&P: A- (long-term),

in each case to the extent that such ratings have been assigned to the relevant Hedging Counterparty by Fitch, Moody’s or S&P, respectively (or such lower rating notified in writing to the Security Trustee by AWL which, in the opinion of AWL following discussions with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch “negative” (or equivalent) of the then current ratings ascribed to any Class of Bonds.

Each Hedging Agreement will include a provision requiring each relevant Hedging Counterparty to post collateral under the Credit Support Annex entered into in respect of any Hedging Agreement where its short-term and/or long-term, as applicable, unsecured, unsubordinated and unguaranteed debt obligations (or such obligations of its relevant guarantor, where applicable) cease to be rated Investment Grade by any Rating Agency. The amount of collateral to be posted will be calculated in accordance with the provisions of the relevant Credit Support Annex on a weekly basis.

For the purposes of the paragraph above, “**Investment Grade**” will mean: (i) in the case of Fitch: F3 (short-term) and BBB- (long-term) (to the extent that the Fitch Appointment Right has been exercised by the Transaction Agent); (ii) in the case of Moody’s: P-3 (short-term) and Baa3 (long-term); and (iii) in the case of S&P: A-3 (short-term) and BBB- (long-term), in each case to the extent that such ratings have been assigned to the relevant Hedging Counterparty by Fitch, Moody’s or S&P, as applicable.

Termination of the Hedging Agreements

Each of AWL, the Programme Issuer and the Issuer will be entitled to terminate a Hedging Agreement in certain circumstances, including:

- (a) failure to pay by the Hedging Counterparty;
- (b) certain insolvency events affecting the Hedging Counterparty; and
- (c) certain rating downgrade events affecting the Hedging Counterparty (or any guarantor of the Hedging Counterparty, as applicable) where the relevant Hedging Counterparty’s (or its guarantor’s) short-term

and/or long-term, as applicable, unsecured, unsubordinated and unguaranteed debt obligations have been downgraded and it has failed to post collateral or take such other steps (if any) as may be stipulated in the relevant Hedging Agreement.

The Hedging Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances in accordance with the CTA being:

- (a) a failure by AWL, the Programme Issuer or the Issuer, as the case may be, to make payment when due;
- (b) certain insolvency events affecting AWL, the Programme Issuer or the Issuer, as the case may be;
- (c) an illegality event affecting the Hedging Agreement;
- (d) a force majeure event affecting the Hedging Agreement;
- (e) certain tax events and tax events upon merger;
- (f) in respect of an Existing Swap Transaction only, if a refinancing, repayment or prepayment in whole or in part of the Senior Lender Liabilities (as defined in the Master Definitions Agreement) occurs (such termination being on a pro rata basis between the Existing Hedging Counterparties);
- (g) termination of a Standstill Period (except by virtue of remedy or waiver of the relevant Event of Default giving rise to the Standstill Period);
- (h) the occurrence of the Discharge Date;
- (i) in respect of a Hedging Transaction other than an Existing Swap Transaction, if any part (but not all) of the Senior Debt is prepaid or cancelled prior to its maturity resulting in either of the Programme Issuer, the Issuer or AWL (as the case may be) being over-hedged (provided that the Hedging Counterparty shall have the right to terminate an equivalent proportion (and not all) of the Hedging Agreement in order to avoid such over-hedging); or
- (j) in whole or in part, without the consent of the Security Trustee, on such terms as may be agreed,

from time to time between the Hedging Counterparty and AWL, the Programme Issuer or the Issuer, as the case may be, in order to allow the Financing Group to comply with the requirements of the Hedging Policy.

In the event that a Hedging Agreement is terminated, a termination payment may be due from AWL, the Programme Issuer or the Issuer, as the case may be.

Hedging Transactions in respect of Super-Senior Interest Rate Hedging Transactions, Pari Passu Interest Rate Hedging Transactions and Currency Hedging Transactions in respect of Class A Debt and Currency Hedging Transactions in respect of Class B Debt will be entered into under separate ISDA Master Agreements between AWL, the Programme Issuer or the Issuer, as the case may be, and the relevant Hedging Counterparty. If an Early Termination Date occurs or is designated and an amount is due and payable to such Hedging Counterparty pursuant to Section 6(e) of a Hedging Agreement (the “**Section 6(e) Amount**”), such amount shall relate only to the category of hedging to which that ISDA Master Agreement relates, and shall be satisfied in accordance with the provisions of the CTA. Where a Hedging Counterparty has entered into more than one Hedging Agreement with one or more of AWL, the Programme Issuer or the Issuer, and an Early Termination Date occurs in respect of more than one of those Hedging Agreements at the same time, each Section 6(e) Amount shall constitute a separate amount payable by the relevant Obligor in accordance with the CTA.

Other Finance Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank agrees to hold the Accounts (other than any Cash Cover Accounts opened at another bank or financial institution in accordance with the Senior Facilities Agreement or any other Authorised Credit Facility) and operate them in accordance with the instructions of the Transaction Agent or Standstill Cash Manager (as applicable). The Cash Manager or Standstill Cash Manager (as applicable) manages the Accounts on behalf of the Financing Group pursuant to the CTA (see section “*Cash Management*” above).

Registered Office Agreement

Pursuant to a registered office agreement entered into between the Programme Issuer and Maples Corporate Services Limited on 11 January 2013, Maples Corporate Services Limited agreed to provide certain corporate services to the Programme Issuer.

Tax Deed of Covenant

Pursuant to the Tax Deed of Covenant, among other things, all the parties thereto which are members of the Affinity Group make representations and give covenants with a view to protecting the Obligors from various tax-related risks.

Under the terms of the Tax Deed of Covenant, each Obligor gives certain representations and covenants as to its tax status and to the effect that, subject to the Obligors’ membership of the AWL VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which could reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person (a “**Secondary Tax Liability**”) and, save in certain permitted circumstances, that it will not take any steps and will procure that no steps are taken which would cause any Obligor to become subject, *inter alia*, to any charge to corporation tax on chargeable gains under section 179 of the Taxation of Chargeable Gains Act 1992, section 345, 631 or 780 of Corporation Tax Act 2009 (each a “**Degrouping Tax Charge**”) or to stamp duty land tax as a result of the withdrawal of group relief under paragraph 3 or 9 of schedule 7 to the Finance Act 2003 (an “**SDLT Clawback**”).

Affinity Water Acquisitions (Investments) Limited, Affinity Water Acquisitions (Holdco) Limited (“**AWAHL**”) and the Parent (the “**Covenantors**”) also represent and covenant that, other than where liability arises from membership of the AWL VAT Group, no steps have been taken nor will be taken which might reasonably be expected to give rise to a Secondary Tax Liability in an Obligor, and that they will not take and will procure, to the extent that they are able to do so, that no steps are taken which cause an Obligor to be subject to a Degrouping Tax Charge or SDLT Clawback.

Under the Tax Deed of Covenant, AWAHL undertakes to indemnify the Obligors against any Secondary Tax Liability, Degrouping Tax Charge or SDLT Clawback which arises as a result of the breach of the covenants referred to above.

With a view to preventing or mitigating a Secondary Tax Liability, Degrouping Tax Charge or SDLT Clawback arising in an Obligor, the Covenantors and the Obligors (among others), under the Tax Deed of Covenant, incurred certain obligations in relation to specified events including changes in ownership of the Obligors. For example, the 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 AWAHL and therefore of the Obligors (for example, as a result of the sale of shares in AWAHL or the Parent), the Parent 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.

The AWL VAT Group (of which AWL is the representative member) is comprised of certain members of the Affinity Group, including AWL and AWHL. With a view to mitigating the possibility of any Obligor becoming liable (on a joint and several basis or otherwise) for any VAT liability of another person (other than an Obligor), the Obligors and the Covenantors represent and covenant that no other person shall (other than as a result of a change of law) become treated as a member of the AWL VAT Group without the consent of the Security Trustee. AWAHL will also indemnify AWL (and each other member of the AWL VAT Group) or procure that AWL (and each other member of the AWL VAT Group) is indemnified in respect of any Tax liability which AWL (or such other member of the AWL VAT Group) may incur by virtue of any member of the Affinity Group (other than an Obligor) having been a member of the AWL VAT Group.

CHAPTER 8 THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to amendment) will be endorsed on each Note in definitive form if issued.

All references to “Trustee” in the Conditions should be construed as references to “Note Trustee” as defined in these Listing Particulars.

The £50,000,000 5.875 per cent. Guaranteed Notes due 2026 (comprising the Original Notes and the Further Notes (as each expression is defined below) and together, the “**Notes**”) issued by Affinity Water Finance (2004) PLC (formerly known as Affinity Water Finance (2004) Limited, prior to which it was known as Affinity Water Finance (2004) PLC, prior to which it was known as Veolia Water Central Finance PLC and prior to that, Three Valleys Water Finance PLC) (the “**Issuer**”) are constituted by a trust deed dated 13 July 2004 (as amended and restated on 16 August 2004 with effect as of 13 July 2004 and on 4 February 2013 by a deed of variation entered into between the Issuer, Affinity Water Limited (formerly known as Three Valleys Water PLC and then Veolia Water Central Limited), Affinity Water Holdings Limited and Affinity Water Programme Finance Limited as guarantors (together, the “**Guarantors**” and each a “**Guarantor**”), Citicorp Trustee Company Limited as original trustee (the “**Original Trustee**”) and Deutsche Trustee Company Limited as the new trustee (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed (as defined below) as trustee for the holders of the Notes (the “**Noteholders**”)) (together, the “**Original Trust Deed**”) and as further amended by virtue of a supplemental trust deed dated 16 July 2014 between the Issuer, the Guarantors and the Trustee (the “**Supplemental Trust Deed**” and together with the Original Trust Deed, the “**Trust Deed**”).

The £50,000,000 5.875 per cent. Guaranteed Notes due 2026 (the “**Further Notes**”) issued on 16 July 2014 (the “**Issue Date**”) will be consolidated and form a single series with the £200,000,000 5.875 per cent. Guaranteed Notes due 2026 issued on 13 July 2004 (the “**Original Notes**”) and are constituted by, subject to and have the benefit of, the Trust Deed.

Pursuant to clause 8 (*Securitisation Event Covenant*) of the trust deed dated 13 July 2004 (as amended and restated on 16 August 2004 with effect as of 13 July 2004), the Original Trustee was requested by the Issuer to enter into each of:

- (i) the security trust and intercreditor deed (“**STID**”) with, inter alios, the Issuer, the Security Trustee and other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors on the terms set out therein and the Secured Creditors agree to certain intercreditor arrangements;
- (ii) the common terms agreement (“**CTA**”) with, inter alios, the Obligors, the Security Trustee and the other Secured Creditors, and which contains certain representations and covenants of the Obligors and Events of Default in relation to the Notes; and
- (iii) the master definitions agreement (the “**Master Definitions Agreement**”) with, inter alios, the Obligors and the Security Trustee.

The Issuer may enter into liquidity facility agreements with certain 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).

The Issuer may enter into certain currency, index linked and interest rate hedging agreements to hedge certain of its currency and interest rate obligations.

The Trust Deed, the Notes, the Bond Trust Deed, the Bonds (including the applicable Final Terms or Drawdown Prospectus), 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 Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Programme Issuer/AWL Loan Agreements, the Existing Issuer/AWL Loan Agreement, the CTA, the CP Agreement, the Existing Authorised Credit Facilities, any other Authorised Credit Facilities, the Master Definitions Agreement, the account bank agreement between, among others, the account bank, the Programme Issuer, the Issuer and the Security Trustee (the “**Account Bank Agreement**”) and the Tax Deed of Covenant will be, in relation to the Notes, (and together with each other agreement or instrument between AWL and the Issuer or the Programme Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by the Transaction Agent, the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the “**Finance Documents**”.

Defined terms in these Conditions shall have the meanings given to them in Condition 18 (*Definitions*). Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Copies of, *inter alia*, the Finance Documents and the paying agency agreement dated 13 July 2004 (the “**Original Paying Agency Agreement**”) relating to the Notes as supplemented by a supplemental paying agency agreement dated 16 July 2014 (the “**Supplemental Paying Agency Agreement**” and, together with the Original Paying Agency Agreement, the “**Paying Agency Agreement**”) between the Issuer, the Guarantors, Deutsche Bank AG, London Branch as principal paying agent (replacing Citibank, N.A.) (the “**Principal Paying Agent**” and, together with any other paying agents appointed by the Issuer, the “**Paying Agents**”, which expression shall include any additional or successor paying agents) and the Trustee.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the STID, the Security Agreement and the CTA and to have notice of those provisions of the other Finance Documents applicable to them.

Certain provisions of these Terms and Conditions are summaries of the Trust Deed and the Paying Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection by Noteholders and Couponholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Deutsche Trustee Company Limited, Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the Specified Offices (as defined in the Paying Agency Agreement) of each of the Paying Agents.

1 Form, Denomination and Title

The Notes are serially numbered and in bearer form in the denominations of £1,000, £10,000 and £100,000 each with Coupons and talons (each, a “**Talon**”) for further Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not the Note, Coupon or Talon is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Note, Coupon or Talon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2 Status and Further Issues

- (a) *Status of the Notes and Coupons*: The Notes and Coupons constitute direct, general and unconditional obligations of the Issuer which will at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Notes and Coupons are secured in the manner described in Condition 3 (*Security*).
- (b) *Covenants*: So long as any of the Notes remain Outstanding, the Issuer (together with other Obligor) will agree to comply with the covenants as set out in Schedule 4 (*Covenants*) of the CTA.

The Trustee shall be entitled to rely absolutely on a certificate signed by two directors 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.

- (c) *Further Issues*: The Issuer may from time to time, without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

3 Security

- (a) *Guarantee and Security*: Each of Affinity Water Holdings Limited (“**AWHL**”), AWL and the Programme Issuer guarantees the obligations of the Issuer in respect of the Notes pursuant to a security agreement (the “**Security Agreement**”) that will be entered into by each Obligor in favour of the Security Trustee over the entire property, assets, rights and undertakings (subject to certain specified exceptions) of each such Obligor (the “**Security**”), in the case of AWL, to the extent permitted by the Act and the Instrument of Appointment (as defined below). All Notes issued by the Issuer and any additional creditor of the Issuer acceding to the STID will share in 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 August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) (as amended/varied from time to time and as appended to the variation instrument dated 20 July 2012 coming into effect on 27 July 2012 at 23:59, as amended from time to time) under which the Secretary of State for the Environment appointed AWL as a water undertaker under the WIA for the areas described in the Instrument of Appointment; and

“**Obligors**” means the Issuer, the Programme Issuer, AWL and AWHL, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof (including any Permitted Subsidiary), and “**Obligor**” means any of them.

- (b) *Relationship among Noteholders and with other Secured Creditors*: The Trust Deed contains provisions detailing the Trustee’s obligations to consider the interests of the Noteholders as regards all powers, trusts and authorities, duties and discretions of the Trustee (except where expressly provided or otherwise referred to in Condition 11 (*Trustee and Paying Agents*)).

The STID provides that the Security Trustee (except in relation to Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Majority Creditors (subject to the Security Trustee being indemnified and/or prefunded and/or secured to its satisfaction) (provided that the relevant Quorum Requirement has been met) (including the Trustee as trustee for and representative of the Noteholders and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Trustee as trustee for and representative of the Noteholders or any individual Noteholder) in relation to the exercise of such rights and, consequently, has no liability to the Noteholders 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 (provided that the relevant Quorum Requirement has been met), enforce its rights with respect to the Security in accordance with the instructions of the Majority Creditors, 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 Noteholder, provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured and/or prefunded 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) to make payments in accordance with the Payment Priorities (as set out in the CTA).
- (e) *Trustee and Security Trustee not liable for security*: The 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 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 Trustee and the Security Trustee have no responsibility for the value of any such Security.

4 Interest

The Notes bear interest at the rate of 5.875 per cent. per annum, (the “**Rate of Interest**”), payable annually in arrear on 13 July in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, or unless default is otherwise made in respect of such payment, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be £58.75 in respect of each Note of £1,000 denomination, £587.50 in respect of each Note of £10,000 denomination and £5,875.00 in respect of each Note of £100,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the

product by the relevant Day Count Fraction and rounding the resulting figure to the nearest penny (half a penny being rounded upwards), where:

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

“**Regular Period**” means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

The first Interest Payment Date in respect of the Further Notes will be on 13 July 2015 (the “**First Interest Payment Date**”).

Provided the amount representing interest accrued from (and including) 13 July 2014 to (but excluding) the Issue Date has actually been received by or for the account of the Issuer on or before the Issue Date, holders of the Further Notes will receive, on the First Interest Payment Date, an amount representing accrued interest on the Further Notes in respect of the period from and including 13 July 2014 to (but excluding) 13 July 2015 as specified in this Condition.

5 **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed by the Issuer at their principal amount on 13 July 2026, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for Taxation Reasons*: If at any time the Issuer satisfies the 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 Notes (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, if the Issuer is substituted for a company incorporated under or tax resident in another jurisdiction as permitted in accordance with these Conditions, such other jurisdiction or, in each case, any political subdivision thereof, or any other authority thereof, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitution of a company incorporated under another jurisdiction approved by the Trustee as principal debtor under the Notes and as lender under the Existing Issuer/AWL Loan Agreement 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 12 (*Meetings of Noteholders; Modification and Waiver; 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 (but will not be obliged to), upon giving not more than 60 nor less than 30 days’ notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders in accordance with Condition 15 (*Notices*), redeem all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon. Before giving any such notice of redemption, the Issuer shall provide to the Trustee, the Security Trustee and the Secured Creditors a certificate signed by an Authorised Signatory (a) 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 (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Notes and any amounts under the Security Agreement to be paid in priority to, or pari passu with, the Notes under the Payment Priorities.

The Trustee, the Security Trustee and the Secured Creditors shall be entitled to accept and rely on any certificate referred to in this Condition 5(b) as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

- (c) *Redemption on Prepayment of an Existing Issuer/AWL Loan Agreement:* If AWL gives notice to the Issuer under the Existing Issuer/AWL Loan Agreement that it intends to prepay all or part of the advance made thereunder, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders in accordance with Condition 15 (Notices), (where such advance is being prepaid in whole) redeem all of the Notes or (where part only of such advance is being prepaid) the proportion of the relevant Notes which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Notes will be redeemed at their Redemption Amount determined in accordance with Condition 5(d) (Redemption at the option of the Issuer) except that, for the purposes of this Condition 5(c), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 5(c), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Notes will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.
- (d) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole or in part at the price which shall be the higher of:
- (i) par; and
 - (ii) that price (the "**Redemption Price**"), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Notes, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption (the "**Reference Date**"), would be equal to the Gross Redemption Yield on such dealing day of the 5 per cent. Treasury Stock 2025 or, if such stock is no longer in issue, of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "**Reference Gilt**") on the basis of the middle market price of the Reference Gilt prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by Dresdner Bank AG London Branch (or such other person(s) as the Trustee may approve). Any reference in these Terms and Conditions to principal shall, where applicable, be deemed to be a reference to the Redemption Price. The "**Gross Redemption Yield**" on the Notes and the Reference Stock will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for calculating Gilt Prices from Yield" page 4, Section One: Price/Yield Formulae "Conventional Gilts: Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi Coupon Date" (published 8/6/1998) (as supplemented, amended or replaced from time to time) or on such other basis as the Trustee may approve,

together with interest (if any) accrued to but excluding the date of redemption (the "**Redemption Amount**").

In order to exercise the option contained in this Condition 5(d) the Issuer must give not more than 60 nor less than 30 days' notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes specified in such notice).

Notices of redemption will specify the date fixed for redemption, the applicable redemption price and, in the case of partial redemption, the serial numbers of the Notes called for redemption, the serial numbers of any Notes previously called for redemption and not presented for payment and the aggregate principal amount of the Notes to remain outstanding after redemption.

Prior to the giving of any such notice, the Issuer must certify (as further specified in the Finance Documents) to the 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 Notes as aforesaid.

- (e) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 5(d) (Redemption at the option of the Issuer), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation.
- (f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 5(a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*) above.
- (g) *Purchase*: The Issuer, provided that no Event of Default has occurred and is continuing, may at any time purchase Notes in the open market or otherwise and at any price subject to the rules of the London Stock Exchange, provided that all unmatured Coupons and unexchanged Talons are purchased with them. Any purchase by tender shall be made available to all Noteholders alike.
- (h) *Cancellation*: All Notes so redeemed or purchased by the Issuer and any unmatured Coupons or unexchanged Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold and the obligations of the Issuer in respect of any such Notes and Coupons shall be discharged.

6 Payments

- (a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted

will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

- (e) *Payments on Business Days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (f) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a “**Coupon Sheet**”), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*)).

Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

7 Taxation

All payments in respect of the Notes and the Coupons will be made (whether by the Issuer, the Guarantors, any Paying Agent, the Trustee or the Security Trustee) free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or, where applicable, the Trustee or the Security Trustee is

required by applicable law to make any payment in respect of the Notes 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 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 Trustee or the Security Trustee will be obliged to make any additional payments to the Noteholders, or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the 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.

8 Events of Default

The Events of Default (as defined in the Master Definitions Agreement) relating to the Notes are set out in Schedule 6 (*Events of Default*) of the CTA.

- (a) *Events of Default*: If any Event of Default occurs and is continuing, subject always to the terms of the STID, the Trustee may at any time (in accordance with the provisions of the Trust Deed and the STID), and shall upon the Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the Notes and subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer and the Security Trustee that the Notes are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 5(d) (*Redemption at the option of the Issuer*) (except that for the purposes of this Condition 8(a), the “Reference Date” means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(a)).
- (b) *Confirmation of no Event of Default*: The Issuer, pursuant to the terms of the CTA, shall provide written confirmation to the Trustee, on a semi-annual basis, that no Event of Default has occurred.
- (c) *Enforcement of Security*: If the Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Notes, 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 (provided that the relevant Quorum Requirement has been met) pursuant to the STID.

Following the notification of an Event of Default, the STID provides for a Standstill Period (as defined in the Master Definitions Agreement) to commence and for certain restrictions to apply to all Secured Creditors of the Obligors. The CTA also contains various Trigger Events that will, if they occur, (among other things) permit the Majority Creditors (provided that the relevant Quorum Requirement has been met) to commission an Independent Review, require AWL to discuss its plans for appropriate remedial action and prevent the Financing Group from making further Restricted Payments until the relevant Trigger Events have been remedied.

- (d) *Automatic Acceleration*: In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedging Termination or a Permitted Lease Termination as set out in the STID), the Notes shall automatically become due and repayable at their respective Redemption Amount determined in accordance with Condition 5(d) (*Redemption at the option of the Issuer*) (except that, 5(b) for the purposes of this Condition 8(d), “Reference Date” means the date two Business Days prior to the date of such acceleration) plus, in each case, accrued and unpaid interest thereon.

9 Prescription

Claims against the Issuer and the Guarantors for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest against the Issuer and the Guarantors shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10 Replacement of Notes, Coupons and Talons

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent subject to all applicable laws and stock exchange requirements, 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 and the Guarantors may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11 Trustee and Paying Agents

- (a) *Trustee considerations*: Subject to the terms of the STID and Condition 11(b) (*Exercise of rights by Trustee*), in connection with the exercise, under these Conditions, the Trust Deed or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Trustee shall have regard to the interests of the holders of the Notes as a class and will not have regard to the consequences of such exercise for individual Noteholders or Couponholders 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 Trustee shall not be entitled to require from the Issuer, nor shall any Noteholders be entitled to claim from the Issuer or the Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Noteholder of any such exercise.
- (b) *Exercise of rights by Trustee*: Subject as provided in Condition 11(a) (*Trustee considerations*) above or elsewhere in these Conditions and the Trust Deed, the Trustee will exercise its rights under, or in relation to, the Trust Deed or the Conditions in accordance with the directions of the relevant Noteholders, but the Trustee shall not be bound as against the Noteholders to take any such action unless it has (a) (in respect of the matters set out in Condition 8 (*Events of Default*) and Condition 12(a) (*Decisions of Majority Creditors, STID Matters and STID Direct Voting Matters*)) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the Notes Outstanding; or (b) been so directed by an Extraordinary Resolution; and been indemnified and/or furnished with security and/or prefunded to its satisfaction.
- (c) *Decisions under STID binding on all Noteholders*: Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Trustee and the Noteholders, decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) will bind the Trustee and the Noteholders in all circumstances.
- (d) *Indemnification of the Trustee*: The Trust Deed contains provisions for indemnification of the 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 and/or prefunded to its satisfaction. The Trustee or any of its affiliates 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.

- (e) *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) pursuant to the terms of the STID and if indemnified and/or secured and/or prefunded to its satisfaction.
- (f) *Directions, Duties and Liabilities*: Neither the Security Trustee nor the 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) pursuant to the terms of the STID, 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 Trustee pursuant to the STID, any Finance Document or any Ancillary Document.
- (g) *Paying Agent*: In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantors and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any Noteholder or Couponholder.

The Issuer and the Guarantors reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that the Issuer and the Guarantors shall at all times maintain:

- (i) a Principal Paying Agent;
- (ii) a Paying Agent in London; and
- (iii) if European Council Directive 2003/48/EC or any other Directive or law implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive or law.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12 Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Decisions of Majority Creditors, STID Matters and STID Direct Voting Matters*: The STID contains provisions dealing with the manner in which STID Matters affecting the interests of the Secured Creditors (including the Trustee and the Noteholders) will be dealt with. Noteholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met).

The STID provides that the Class A Creditors (which includes the Noteholders) (the “**Qualifying Existing Bondholders**”) shall each be entitled to instruct the Trustee through the clearing systems in accordance with the terms of the Trust Deed to vote on its behalf in relation to such STID Direct Voting Matters as the DIG Representative of such Noteholder.

As more fully set out in the STID and the Trust Deed, voting in connection with such STID Direct Voting Matters shall be determined on a pound-for-pound basis by reference to the Outstanding

Principal Amount owed to each Qualifying Secured Creditor voting in respect of such STID Direct Voting Matters, so that all votes in favour of the proposal and all votes against the proposal from such Qualifying Secured Creditor are considered on an aggregate basis, irrespective of whether a majority of such Noteholders.

For the purpose of voting in connection with a STID Direct Voting Matter, upon receipt thereof in accordance with the provisions of the STID, the Trustee shall promptly forward a copy of such notice to the Qualifying Existing Bondholders in accordance with Condition 15 (*Notices*) requesting them to instruct the Trustee how to vote. After obtaining the instruction of the Qualifying Existing Bondholders, the Trustee will vote in relation to the relevant STID Direct Voting Matter in accordance with such instructions.

If a STID Matter relates to an Entrenched Right of the Noteholders, such STID Matter shall not be a STID Direct Voting Matter and the Trustee shall be entitled to convene a meeting of the Noteholders to consider such STID Matter and the Trustee shall vote in accordance with a direction by those holders of such outstanding Notes by means of an Extraordinary Resolution of the Notes. In any case, the Trustee shall not be obliged to vote unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

- (b) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed and any other Finance Document to which the 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 Trustee (as set out in the STID)) subject to the terms of the STID and subject to the provisions concerning ratification set out in the Trust Deed, be made if sanctioned by a resolution passed at a meeting of such Noteholders duly convened and held in accordance with the 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 Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of the relevant Noteholders holding not less than one-tenth in nominal amount of the relevant Notes 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 Principal Outstanding Amount of the relevant Notes for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Noteholders, whatever the Principal Outstanding Amount of the relevant Notes held or represented, provided, however, that certain matters as set out in paragraph 17 of Schedule 4 to the Trust Deed (the “**Basic Terms Modifications**”) in respect of the Noteholders may be sanctioned only by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in the Principal Outstanding Amount of the relevant Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Noteholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the 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 Noteholders.

- (c) *Modification, consent and waiver*: As more fully set out in the Trust Deed (and subject to the conditions and qualifications therein and to the terms of the STID), the Trustee may and, in respect of

(iii) below, shall, without the consent of the Noteholders, concur with the Issuer or any other relevant parties in making:

- (i) any modification of these Conditions, the Trust Deed or any Finance Document if in the opinion of the Trustee such modification is of a formal, minor or technical nature or is made to correct a manifest error;
- (ii) any modification and granting any consent under or waiver or authorisation of any breach or proposed breach (or determination that any Event of Default or Potential Event of Default shall not be treated as such) of these Conditions, the Trust Deed or any Finance Document which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders; and
- (iii) any modifications required for the purpose of the accession of a Permitted Additional Issuer Subsidiary to the relevant Transaction Documents.

Any such modification, consent, waiver or authorisation shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, notice thereof shall be given by the Issuer to the Noteholders as soon as practicable thereafter.

The Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Noteholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Notes.

- (d) *Substitution*: As more fully set forth in the STID (and subject to the terms thereof), the Trustee may also agree with the Issuer to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Trust Deed and the Notes.

13 (Intentionally left blank)

14 Enforcement

No Noteholder is entitled to take any action against the Issuer or against any assets of the Issuer to enforce its rights in respect of the Notes or to enforce any of the Security unless the 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 8(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) pursuant to the STID and neither the Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured and/or prefunded 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 Trustee nor the Noteholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, 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 Notes are Outstanding or for two years and a day after the latest Maturity Date on which any Note is due to mature.

15 Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be

deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

So long as any Notes are represented by Global Notes, notices in respect of those Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg 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 Noteholders on the day of delivery to such clearing systems.

16 Redenomination, Renominalisation and Reconventioning

- (a) *Notice of redenomination:* If the United Kingdom becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents and having notified the Trustee prior to the provision of such notice, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes 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 Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note 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 (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 Trustee, that 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 Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
 - (ii) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in sterling (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes 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 Notes in accordance with this Condition 16) shall remain in full force and effect; and
 - (iii) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

- (iv) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a subdivision of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a country in a city in which banks have access to the TARGET System.
- (c) *Interest*: Following redenomination of the Notes pursuant to this Condition 16, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by each relevant holder.
- (d) *Interpretation*: In this Condition:
 - “**Participating Member State**” means a member state of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty; and
 - “**Treaty**” means the Treaty establishing the European Community, as amended.

17 Governing Law and Jurisdiction

- (a) *Governing law*: The Notes, the Coupons and the Trust Deed and all matters arising from or connected with the Notes, the Coupons and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction*: Each of the Issuer and the Guarantors has in the Trust Deed agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute arising from or connected with the Notes.

18 Definitions

For the purposes of these Terms and Conditions:

the “**Act**” means the United Kingdom Water Industry Act 1991 (as amended).

“**Business Day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

“**Instrument of Appointment**” means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed AWL as a water undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

“**Obligors**” means the Programme Issuer, the Issuer, AWL and AWHL, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof (including any Permitted Subsidiary), and “**Obligor**” means any of them.

“**Rating Agencies**” means Moody’s, S&P and Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) and any further or replacement rating agency appointed by the Programme Issuer or the Issuer with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors in accordance with the terms of the STID) to provide a credit rating or ratings for the Class A Debt and the Class B Debt for so long as they are willing and able to provide credit ratings generally (and “**Rating Agency**” means any one of them).

“Relevant Date” means the earlier of (a) the date on which all amounts in respect of the Notes have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding has been received by the Principal Paying Agent and notice to that effect has been given to the Bondholders in accordance with Condition 15 (*Notices*).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Trust Deed and the Global Notes contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the Conditions set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 26 August 2014, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but in part (free of charge to the holder) for the Definitive Notes described below (i) if the Permanent Global Note is held on behalf of a clearing system and such 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 or does in fact do so or (ii) if, by reason of any change in the laws of the United Kingdom, the Issuer, or as the case may be, any Guarantor is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form, or (iii) if any of the circumstances described in Condition 8 (*Events of Default*) occurs.

In exchange for the Permanent Global Note, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest and Talons for further Coupons which has not already been paid on the Permanent Global Note) and in or substantially in the form set out in Part A of Schedule 2 to the Trust Deed within 30 days of the occurrence of any of the events described in (i), (ii) and (iii) above. On exchange in full of the Permanent Global Note, the Principal Paying Agent will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

2 Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes represented by the Permanent Global Note, surrender of the Permanent Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Permanent Global Note, Condition 6(e) (*Payments on Business Days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

3 Notices

So long as the Notes are represented by the Permanent Global Note and the Permanent Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions. So long as the Notes are listed, the Issuer will also publish notices in accordance with the rules and regulations of the relevant stock exchange.

4 Prescription

Claims against the Issuer and each Guarantor in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

5 Meetings

The holder of the Permanent Global Note shall (unless the Permanent Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Notes.

6 Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Permanent Global Note.

7 Trustee's Powers

In considering the interests of Noteholders while the Permanent Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Permanent Global Note and may consider such interests as if such accountholders were the holder of the Permanent Global Note.

8 Call Option

No drawing of Notes will be required under Condition 5(e) (*Partial redemption*) in the event that the Issuer exercises its call option in Condition 5(d) (*Redemption at the option of the Issuer*) while the Notes are represented by the Permanent Global Note in respect of less than the aggregate principal amount of Notes outstanding.

CHAPTER 9
USE OF PROCEEDS

The proceeds of the issue of Further Notes by the Issuer will be on-lent to AWL under the terms of an Issuer/AWL Loan Agreement to be applied by AWL for its general corporate purposes or used to repay or service AWL's Financial Indebtedness.

CHAPTER 10

DESCRIPTION OF THE HEDGING COUNTERPARTIES

The information contained herein with respect to the Hedging Counterparties relates to and has been obtained from each Hedging Counterparty, respectively.

HSBC Bank plc

HSBC Bank plc and its subsidiaries form a UK-based group providing a comprehensive range of banking and related financial services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name Midland Bank Limited which it held until 1982 when it re-registered and changed its name to Midland Bank plc. During the year ended 31 December, 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 the year ended 31 December 1999.

The HSBC Group is one of the world's largest banking and financial services organisations, with offices in 75 countries and territories in Europe, Asia, North and Latin America and the Middle East and North Africa. Its total assets at 31 March 2014 were U.S.\$2,758 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are, as at the date of these Listing Particulars, currently rated P-1 by Moody's, A-1+ by Standard & Poor's and F1+ by Fitch. The long term senior unsecured and unguaranteed obligations of HSBC Bank plc are currently rated Aa3 by Moody's, 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 is 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.

Lloyds Bank plc

Lloyds Bank plc ("**Lloyds Bank**"), formerly Lloyds TSB Bank plc, was incorporated under the laws of England and Wales on 20 April 1865 (registration number 2065). Lloyds Bank's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom. Lloyds Bank is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the Financial Conduct Authority ("**FCA**") and the PRA. Lloyds Bank is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**").

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to individual and business customers. The businesses of Lloyds Banking Group are in or owned by Lloyds Bank. Lloyds Banking Group owns Lloyds Bank directly which in turn owns HBOS plc directly.

Additional information, including copies of the most recent publicly available financial results of Lloyds Bank and Lloyds Banking Group, 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 these Listing Particulars.

National Australia Bank Limited (“NAB”) (acting through its office at 88 Wood Street, London, EC2V 7QQ)

History and development

The legal name of NAB is National Australia Bank Limited and it trades commercially as ‘National Australia Bank’ and, particularly within Australia, as ‘NAB’. NAB is registered in the State of Victoria with Australian Business Number (ABN) 12 004 044 937. NAB was incorporated on 23 June 1893.

NAB is a public limited company incorporated in the Commonwealth of Australia and it operates under Australian legislation including the Corporations Act 2001 of Australia (the Corporations Act). Its registered office is Level 4 (UB4440), 800 Bourke Street, Docklands, Victoria 3008, Australia (telephone number +61 3 8634 2345).

Business Overview

At 31 March 2014 NAB had average assets of A\$854.0 billion, risk weighted assets of A\$367.2 billion, a Common Equity Tier 1 capital ratio of 8.64%, A\$136.7 billion in funds under management (as at 31 March 2013), and reported a half year underlying profit of A\$5.0 billion.

NAB Group’s operations in Asia, Australia, New Zealand, the United Kingdom and the United States serve over 12.4 million banking and wealth management clients, providing access to international financial markets and an extensive range of specialised funding, liquidity, investment, asset services and risk management capabilities

Principal activities

NAB is an international financial services organisation, providing a comprehensive and integrated range of financial products and services. One of Australia’s biggest banks and largest listed institutions, NAB manages relationships with retail, corporate and institutional clients, and financial organisations internationally.

The principal activities of NAB are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Around the globe, NAB Group’s reach includes:

- Australia – NAB, MLC and UBank connect with millions of customers every day across retail, business, private and institutional banking and wealth management.
- United Kingdom – Clydesdale Bank and Yorkshire Bank offer a broad range of services including retail, business and corporate banking. Clydesdale International has branches in Dubai and Guernsey.
- New Zealand – Bank of New Zealand (BNZ) provides a range of innovative wealth management, retail and institutional financial services, business and agribusiness products and services.
- United States – Great Western Bank provides banking, wealth management and agribusiness services to its personal and business customer base.

NAB is listed on the ASX, with short term ratings of A-1+ by Standard & Poor’s, P-1 by Moody’s and F1+ by Fitch. Long term senior unsecured and unguaranteed obligations are currently rated AA- by Standard & Poor’s, Aa2 by Moody’s and AA- by Fitch.

Royal Bank of Canada

Royal Bank of Canada (referred to in this section as “**Royal Bank**”) is a Schedule I bank under the Bank Act (Canada), which constitutes its charter and governs its operations. Royal Bank’s corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada.

Royal Bank is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. Royal Bank is one of North America’s leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, investor services and capital markets products and services on a global basis. Royal Bank and its subsidiaries employ approximately 79,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 42 other countries.

Royal Bank had, on a consolidated basis, as at April 30, 2014, total assets of C\$895.9 billion (approximately US\$817.4 billion⁷), equity attributable to shareholders of C\$51.5 billion (approximately US\$47 billion⁷), and total deposits of C\$587.1 billion (approximately US\$535.7 billion⁷). The foregoing figures were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been extracted and derived from, and are qualified by reference to, Royal Bank’s unaudited Interim Consolidated Financial Statements included in Royal Bank’s quarterly Report to Shareholders for the fiscal period ended April 30, 2014.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA (stable outlook) by Standard & Poor’s Ratings Services, Aa3 (negative outlook) by Moody’s Investors Service and AA (stable outlook) by Fitch Ratings. Royal Bank’s common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol “RY.” Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, Royal Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this Official Statement is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2W7, Canada, or by calling (416) 955-7802, or by visiting rbc.com/investorrelations.

The delivery of this Official Statement does not imply that there has been no change in the affairs of Royal Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

The Royal Bank of Scotland plc

The Royal Bank of Scotland plc (the “**Bank**”) is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (“**RBSG**” or the “**holding company**”), a large global banking and financial services group. The ‘Group’ comprises the Bank and its subsidiary and associated undertakings. The Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers. “**RBS Group**” comprises the holding company and its subsidiary and associated undertakings.

⁷ As at April 30, 2014: C\$1.00 = US\$0.912409

⁷ As at April 30, 2014: C\$1.00 = US\$0.912409

⁷ As at April 30, 2014: C\$1.00 = US\$0.912409

RBS Group had total assets of £1,028 billion and owners' equity of £59 billion as at 31 December 2013. RBS Group's capital ratios, as at 31 December 2013, were a total capital ratio of 16.5 per cent., a Core Tier 1 capital ratio of 10.9 per cent. and a Tier 1 capital ratio of 13.1 per cent.

The Group had total assets of £1,020 billion and owners' equity of £49 billion as at 31 December 2013. As at 31 December 2013, the Group's capital ratios were a total capital ratio of 17.4 per cent., a Core Tier 1 capital ratio of 9.8 per cent. and a Tier 1 capital ratio of 11.4 per cent.

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 Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("HMRC") (which may not be binding on HMRC), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of the Notes. The comments are made on the assumption that the Issuer of the Notes 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 Notes and may not apply to certain classes of persons such as dealers, certain professional advisers, or persons connected with the Issuer. The comments do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. 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. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Notes 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 Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes 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 "interest" as understood in 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 Notes 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 5(b) (*Redemption for Taxation Reasons*) or 12(d) (*Substitution*) of the Notes or otherwise and does not consider the tax consequences of any such substitution.

Payment of Interest by the Issuer on the Notes

Interest on the Notes

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. HMRC have confirmed that securities admitted to trading on the Professional Securities Market satisfy the condition of being admitted to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all other cases, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate, subject to the availability of other reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If UK withholding tax is imposed on any payment, the Issuer will not pay additional amounts in respect of the Notes.

Information relating to securities may be required to be provided to HMRC in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be provided to tax authorities in other countries.

Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by a Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by a Guarantor may not be eligible for the quoted Eurobond exemption described above in relation to payments of interest by the Issuer. Accordingly, if a Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate. If UK withholding tax is imposed on any payment, no Guarantor will pay additional amounts in respect of the Notes.

Noteholders within the charge to United Kingdom Corporation Tax

Noteholders within the charge to United Kingdom corporation tax (including non-resident Noteholders whose Notes are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment) will be subject to tax as income on all profits and gains from the Notes broadly in accordance with their statutory accounting treatment. Such Noteholders will generally be charged in each accounting period by reference to interest and other amounts which, in accordance with generally accepted accounting practice, are recognised in determining the Noteholder's profit or loss for that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Notes will be brought into account as income.

Other United Kingdom Noteholders

Interest

Noteholders who are either individuals or trustees and are resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Notes.

Disposals

For Noteholders within the charge to United Kingdom capital gains tax, the Notes may not constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. In that case, a disposal by such a Noteholder of a Further Note would give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax.

Transfers of Notes by Noteholders who are either individuals or trustees and are resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Notes which has accrued since the preceding interest payment date under the provisions of Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses).

Non-United Kingdom Noteholders

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the Noteholder. However, where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of Noteholders (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where the Noteholder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate Noteholder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

EU Directive on the Taxation of Savings Income

The EU Savings Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in a Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in a Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Directive requires Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

CHAPTER 12

SUBSCRIPTION AND SALE

Subscription Agreement

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 10 July 2014, jointly agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe and pay for, or to procure subscription and payment for, the Further Notes on the Issue Date at the Issue Price plus Accrued Interest. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Selling and Transfer Restrictions of the United States of America

Selling Restrictions

The Further Notes and any guarantees in respect thereof have not been and will not be registered under the Securities Act and may not be offered or sold 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.

The Further Notes 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. tax 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 Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or, deliver the Further Notes, and any guarantees in respect thereof (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the Closing of the Offering or the completion of the distribution of the Further Notes within the United States or to, or for the account or benefit of, U.S. persons, and such Joint Lead Manager will have sent to each dealer to which it sells Further Notes and any guarantees in respect thereof during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Further Notes and any guarantees in respect of thereof 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.

The Further Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Further Notes and any guarantees in respect of thereof, any offer or sale of Further Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

These Listing Particulars have been prepared by the Issuer for use in connection with the offer and sale of the Further Notes outside the United States. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Further Notes, in whole or in part, for any reason. These Listing Particulars do not constitute an offer to any person in the United States. Distribution of these Listing Particulars 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 Further Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Further Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of these Listing Particulars and the Further Notes, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time the Further Notes are purchased will be, the beneficial owner of such Further Notes 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 Further Notes and any guarantees in respect thereof 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 Further Notes 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 the Issuer, the Principal Paying Agent, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer of the Further Notes which are the subject of the offering contemplated by these Listing Particulars to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Further Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Further Notes to the public**” in relation to any Further Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Further Notes to be offered so as to enable an investor to decide to purchase or subscribe the Further Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Joint Lead Manager has represented, warranted and agreed that:

- (a) *Financial Promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 the Further Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer or any of the Guarantors; and
- (b) *General Compliance*: it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Further Notes in, from or otherwise involving the United Kingdom.

General

Save for obtaining the approval of the Listing Particulars by the UK Listing Authority in accordance with Part VI of the FSMA for the Further Notes to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Professional Securities Market, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Joint Lead Managers that would permit a public offering of Further Notes, or possession or distribution of the Listing Particulars or any other offering material, in any jurisdiction where action for that purpose is required. Each Joint Lead Manager 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 the Further Notes or have in their possession or distribute the Listing Particulars or any other offering material, in all cases at their own expense. It will also ensure that no obligations are imposed on the Issuer, any of the Guarantors or any other Joint Lead Manager in any such jurisdiction as a result of any of the foregoing actions.

CHAPTER 13

GENERAL INFORMATION

Authorisation

The issue of the Further Notes and the giving of the guarantee by the Issuer of the obligations of AWL and the Programme Issuer have been duly authorised by resolutions of the board of directors (the “**Board**”) of the Issuer passed at a meeting of the Board held on 3 July 2014. 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 Further Notes.

The giving of the guarantees by each of AWL, AWHL and the Programme Issuer has been duly authorised by a resolution of the board of directors of each of AWL, AWHL and Programme Issuer, respectively, dated 3 July 2014.

Listing of Further Notes

Application has been made to the UKLA for the Further Notes to be admitted to the Official List. Application has also been made to the London Stock Exchange for the Further Notes to be admitted to trading on the Professional Securities Market. It is expected that admission of the Further Notes to the Official List and admission to trading of the Further Notes to the Professional Securities Market will be granted on or before 17 July 2014. The estimated cost of the applications for admission to the Official List and admission to trading on the PSM is approximately £6270.

Documents Available

For the period of 12 months starting on the date of these Listing Particulars, copies of the following documents may (when published) be inspected during normal business hours at the specified office of the Principal Paying Agent and at the registered office of the Note Trustee:

- (i) the annual audited unconsolidated financial statements of the Issuer, AWHL and Programme Issuer for the years ended 31 March 2014 and 31 March 2013;
- (ii) the annual report (including the annual statutory audited unconsolidated financial statements) of AWL for the years ended 31 March 2013 and 31 March 2014;
- (iii) a copy of these Listing Particulars;
- (iv) each Investor Report; and
- (v) the Trust Deed.

Transparency Directive

Under the terms of the CTA, the Issuer is required, if it is impracticable or unduly burdensome to maintain the admission of the Notes (defined in the CTA as the “**Existing Notes**”) to trading on the London Stock Exchange, to use reasonable endeavours to procure and maintain an alternative listing. Directive 2004/109/EC of the European Parliament and the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market came into force on 20 January 2005 and has recently been amended by the 2010 PD Amending Directive (the “**Transparency Directive**”). As a result of the Transparency Directive or any legislation

implementing the Transparency Directive, the Issuer or the Guarantors could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information. If the Issuer considers such obligation to be unduly burdensome, the Issuer may decide to delist the Notes from the Official List and the Professional Securities Market and to seek an alternative listing of the Notes on another market or on a stock exchange outside the European Union.

Clearing Systems

The Further Notes will be, and the Original Notes have been, accepted for clearance through Euroclear and Clearstream, Luxembourg. The temporary Common Code and the temporary International Securities Identification Number (ISIN) for the Further Notes while represented by the Temporary Global Note is 108495995 and XS1084959953, respectively. The Common Code and ISIN for the Notes which represented by the Permanent Global Note is 019575152 and the XS0195751523, respectively.

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.

Significant or Material Change

Since 31 March 2014, there has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of each of the Issuer, AWHL (or its subsidiaries), the Programme Issuer and AWL (or its subsidiaries).

Litigation

Each Obligor confirms in respect of itself and in respect of each other member of the Financing Group that there are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Programme Issuer, AWL or AWHL or any other member of the Financing Group is aware) which may have or have had in the 12 months preceding the date of these Listing Particulars a significant effect on the financial position or profitability of the Issuer, the Programme Issuer, AWL, AWHL and/or the Financing Group, respectively.

Availability of Financial Statements

The audited unconsolidated annual financial statements of the Issuer, AWL, AWHL and the Programme Issuer are prepared as of 31 March in each year. AWHL has not published and does not intend to publish any interim financial statements. The unaudited unconsolidated interim financial statements of AWL are prepared as of 30 September in each year. All future audited unconsolidated annual financial statements (and published interim financial statements) of the Programme Issuer, the Issuer and AWL and the audited unconsolidated annual financial statements of AWHL will be available free of charge in accordance with section “*Documents Available – General Information*” above.

Auditors

The auditors of AWL, AWHL, the Programme Issuer and the Issuer were previously Ernst & Young LLP (“E&Y”) of 1 More London Place, London, SE1 2AF, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. The statutory audited accounts of AWL, AWHL, the Programme Issuer and the Issuer have been prepared in accordance with generally accepted accounting standards in the United Kingdom for the years ended 31 March 2014 and for the year 31 March 2013. In each

case, E&Y have given unmodified reports in respect of the statutory audited accounts for the year ended 31 March 2013 which contained no statement under section 498(2) or (3) of the Companies Act 2006. In accordance with Section 485 of the Companies Act 2006, E&Y did not seek reappointment as auditors and a resolution to appoint the auditors, PricewaterhouseCoopers LLP of Abacus House, Castle Park, Cambridge, CB3 0AN (the “**Auditors**”) was passed on 21 May 2013 by AWL and on 9 July 2013 by AWHL, the Programme Issuer and the Issuer.

The Auditors are registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. In each case the Auditors have given unmodified reports in respect of the statutory audited accounts for the year ended 31 March 2014 which contained no statement under section 498(2) or (3) of the Companies Act 2006.

The audited accounts of AWL, AWHL, the Programme Issuer and the Issuer have been delivered to the Registrar of Companies.

Each of the audit reports of (i) Ernst & Young LLP with respect to the statutory audited financial statements of AWL, AWHL, the Programme Issuer and the Issuer as of and for the year ended 31 March 2013 provides: “This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.” and (ii) PricewaterhouseCoopers LLP with respect to the statutory audited financial statements of AWL, AWHL, the Programme Issuer and the Issuer as of and for the year ended 31 March 2014, in accordance with the Companies Act 2006 provides: “This report, including the opinions, as been prepared for, and only for, the company’s member in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any 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 consent in writing.”.

Note Trustee’s reliance on reports and legal opinions

Certain of the reports of accountants and other experts to be provided in connection with the issue of Further Notes thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts. The Note Trustee will not necessarily be an addressee to such reports.

Legend

The Further Notes, 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 Note or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon 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 Further Notes

The Issuer does not intend to provide any post-issuance information in relation to the issue of the Further Notes; however, see the requirement to deliver an Investor Report in accordance with the CTA as described in Chapter 7 “*Overview of the Financing Agreements – Common Terms Agreement*”.

CHAPTER 14

GLOSSARY OF DEFINED TERMS

“**Acceleration of Liabilities**” or “**Acceleration**” means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action) (excluding the taking of any Independent Enforcement Action) including:

- (a) the delivery of a termination notice from a Finance Lessor or AWL terminating the leasing of Equipment under a Finance Lease;
- (b) the delivery of a notice by AWL 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 Document and in accordance with the STID,

“**acceleration**” and “**accelerate**” will be construed accordingly.

“**Accession Memorandum**” means (a) with respect to the STID, each memorandum to be entered into pursuant to clause 2 (*Accession*) or clause 22 (*Benefit of Deed*) (as applicable) of the STID and which is substantially in the form set out in Schedule 1 (*Form of Accession Memorandum*) to the STID; (b) with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 5 (*Form of Accession Memorandum – Guarantor*) to the Bond Trust Deed pursuant to which a Guarantor accedes to the Bond Trust Deed; (c) with respect to the Agency Agreement, a memorandum in substantially the form set out in Schedule 3 (*Form of Accession Memorandum*) to the Agency Agreement pursuant to which a Guarantor accedes to the Agency Agreement; (d) with respect to the Tax Deed of Covenant, a memorandum in substantially the form set out in the Schedule 3 (*Form of Accession Memorandum*) to the Tax Deed of Covenant pursuant to which a Permitted Subsidiary accedes to the Tax Deed of Covenant; (e) with respect to the Dealership Agreement, a memorandum in substantially the form set out in Schedule 3 (*Form of Accession Memorandum*) to the Dealership Agreement pursuant to which a Permitted Subsidiary accedes to the Dealership Agreement; (f) with respect to the Account Bank Agreement, a memorandum in substantially the form set out in Schedule 2 (*Form of Accession Memorandum*) to the Account Bank Agreement pursuant to which a Permitted Subsidiary accedes to the Account Bank Agreement.

“**Account**” means any bank account of any Obligor.

“**Account Bank**” means Barclays Bank PLC or any successor account bank appointed pursuant to the Account Bank Agreement.

“**Account Bank Agreement**” means the account bank agreement dated the Closing Date between, among others, the Obligors, the Account Bank, the Standstill Cash Manager and the Security Trustee.

“**Account Bank Minimum Rating**” means in respect of:

- (a) Moody’s: P-1;
- (b) S&P: A-1; and
- (c) Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent): F1,

or, in each case, such lower rating level notified in writing by AWL to the Security Trustee:

- (i) which, in the opinion of AWL having discussed with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch negative (or equivalent) of the then current ratings ascribed to any Class and/or Sub-Class of Bonds and/or the Notes); and
- (ii) provided that such rating shall not be required from any such Rating Agency that is not then rating any Class and/or Sub-Class of the Bonds and/or the Notes.

“**Accounting Standards**” means, in the case of any Financial Statements or information relating to an Obligor, accounting standards which are generally accepted in the jurisdiction of incorporation of that Obligor (or, of the issuer of PP Bonds as defined in the CTA, as the case may be), from time to time, subject to paragraph 1 (*Financial Statements*) of Part 1 (*Information Covenants*) to Schedule 4 (*Covenants*) to the Common Terms Agreement.

“**Additional Secured Creditor**” means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the provisions of clause 2 (*Accession*) of the STID and any Subordinated Creditor acceding to the STID pursuant to clause 2.5 (*Accession of Subordinated Creditor*) of the STID will not constitute a Secured Creditor.

“**Adjusted Lease Reserve Amount**” means, in respect of any Finance Lease and from the declaration of an Event of Default in any Test Period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such Test Period relating to such Finance Lease as calculated pursuant to paragraph 8.11 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) to the CTA or, where paragraph 8 (*Lease Calculation Cashflow*) of Part 1 (*Form of Finance Lessor Certificate*) of Schedule 11 (*Provisions relating to Future Finance Leases*) to the CTA applies, as calculated pursuant to such paragraph 8.

“**Affected Secured Creditor**” means each Secured Creditor whose Entrenched Rights are affected by a STID Proposal or Direction Notice.

“**Affiliate**” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company, other than:

- (a) in any Hedging Agreement when used in relation to a Hedging Counterparty, where “Affiliate” has the meaning given to it in that Hedging Agreement; and
- (b) in relation to The Royal Bank of Scotland plc, the term “Affiliate” shall not include:
 - (i) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof); or
 - (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiaries or subsidiary undertakings.

“**Affinity Group**” means Affinity Water Acquisitions (Investments) Limited and its Subsidiaries.

“**Agency Agreement**” means the agreement dated on or about the Closing Date between the Programme Issuer, AWL and the Agents referred to therein under which, amongst other things, the Programme 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 Programme Principal Paying Agent, the Registrar, the Transfer Agent, any Paying Agent or any other agent appointed by the Programme Issuer pursuant to the Agency Agreement or Calculation Agency Agreement in relation to the Programme.

“**Agent Bank**” means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.

“**AMP5**” means the asset management plan prepared for the AMP5 period.

“**AMP5 Period**” means the AMP Period commencing on 1 April 2010.

“**AMP6**” means the asset management plan prepared for the AMP6 period.

“**AMP6 Period**” means the AMP Period commencing on 1 April 2015.

“**AMP Period**” means a five year period in relation to which an asset management plan is submitted by AWL to Ofwat.

“**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 the Pre-Test Period and thereafter in respect of each 12 month period commencing 1 April in any subsequent year, the aggregate of all interest (or amounts in the nature of interest (including, but not limited to, lease rentals and hedging payments)) due or to become due (after taking account of the impact on interest rates of any Hedging Agreements then in place) during that Pre-Test Period or 12 month period on the Class A Debt and the Class B Debt (including, for the avoidance of doubt, all interest due on the Class B Debt but not yet payable as a result of the restrictions imposed on the payment of that indebtedness contained in the Finance Documents), all fees and commissions payable to each Finance Party within that Pre-Test Period or 12 month period and the Lease Reserve Amounts or, during a Standstill Period, the Adjusted Lease Reserve Amounts falling due in that Pre-Test Period or 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 Pre-Test Period or Test Period, accretions by indexation to the notional amount under any RPI Linked Hedging Agreement 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 Financing Group from a third party during such period (excluding interest received or receivable under the Intra-Group Loans or any loan or other forms of Financial Indebtedness to Affiliates).

“**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 Auditors 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 Section 219 of the WIA).

“**Ardleigh Arrangement**” means the arrangement between AWL and Anglian Water established pursuant to The Ardleigh Reservoir Order 1967 (1967 No. 1173) including, the “**Ardleigh Reservoir Committee**” established pursuant to Section 19 of that order and any related arrangement concerning the allocation of costs or drawing of water in respect of the Ardleigh Reservoir.

“**arm’s length**”, “**arm’s length basis**” or “**arm’s length terms**” means, in relation to any transaction or arrangement, (i) such transaction or arrangement being on arm’s length terms or (ii) such transaction or arrangement being on terms whereby an Obligor receives additional benefit or value which such Obligor

would not otherwise receive if the transaction were on arm's length terms (but without such transaction or arrangement resulting in a breach of Conditions F and/or K of AWL's Instrument of Appointment).

"Arranger" means The Royal Bank of Scotland plc, the arranger in relation to the Programme.

"Associate" means:

- (a) any person who has a Controlling interest in any member of the Financing Group;
- (b) any person who is Controlled by a member of the Financing Group,

and in each case, any Affiliate of such person.

"Assumptions" means those assumptions which formed the basis for the AWL Business Plan.

"Auditors" means Ernst & Young LLP or such other firm of accountants of international repute as may be appointed by AWL in accordance with the CTA as the Auditors for the Financing Group.

"Authorised Credit Facility" means any facility or agreement entered into by the Issuer, the Programme Issuer or AWL for Class A Debt or Class B Debt as permitted by the terms of the CTA, the providers of which are parties to, or have acceded to, the STID and the CTA, and includes, the Liquidity Facilities, the Programme Issuer/AWL Loan Agreements, the Issuer/AWL Loan Agreements, the Senior Term Facilities, the Working Capital Facility, the Capital Expenditure Facility, the Bond Trust Deed, the Trust Deed, the Bonds, the Notes, the Hedging Agreements, 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 Documents).

"Authorised Credit Provider" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility (and includes each Issuing Bank).

"Authorised Investment Minimum Rating" means, in respect of any person or investment, such person's or investment's short-term unsecured debt obligations being rated, in the case of:

- (a) Moody's, "P-1";
- (b) S&P, "A-1"; and
- (c) Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent), "F1",

or, in each case, such lower rating level notified in writing by AWL to the Security Trustee:

- (i) which, in the opinion of AWL having discussed with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch negative (or equivalent) of the then current ratings ascribed to any Class and/or Sub-Class of Bonds and/or the Notes); and
- (ii) provided that such rating shall not be required from any such Rating Agency that is not then rating the any Class and/or Sub-Class of the Bonds and/or the Notes.

"Authorised Investments" means:

- (a) securities issued by the government of the United Kingdom;
- (b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the relevant entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Authorised Investment Minimum Rating;
- (c) any other obligations, provided that in each case the relevant investment has the Authorised Investment Minimum Rating;

- (d) any money market funds or equivalent investments which have a rating of at least A- by S&P, A3 by Moody's and A- by Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) (provided that such rating shall not be required from any such Rating Agency that is not then rating the Bonds and the Notes);
- (e) any deposit made with the Account Bank; or
- (f) any Bonds or the Notes purchased for bona fide purposes as part of prudent treasury management policies.

“**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.

“**Available Class A Headroom**” means the product of (a) the difference in percentage terms between the Threshold Class A RAR and the Class A RAR as at the relevant Calculation Date and (b) RCV for such Calculation Date.

“**Available Senior Headroom**” means the product of (a) the difference in percentage terms between the Threshold Senior RAR and the Senior RAR as at the relevant Calculation Date and (b) RCV for such Calculation Date.

“**AWAHL**” means Affinity Water Acquisitions (Holdco) Limited, a company incorporated with limited liability in England and Wales, registered number 08101957.

“**AWCF**” means Affinity Water Capital Funds Limited, a company incorporated in England and Wales, registered number 02630142.

“**AWE**” means Affinity Water East Limited, a company incorporated with limited liability in England and Wales, registered number 02663338.

“**AWHL**” means Affinity Water Holdings Limited, a company incorporated with limited liability in England and Wales, registered number 08350099.

“**AWL**” means Affinity Water Limited, a company incorporated with limited liability in England and Wales, registered number 02546950.

“**AWL Business Plan**” means the latest AWL annual business plan prepared by AWL as approved by the board of directors of AWL.

“**AWL Central Region**” has the meaning given to it in Chapter 5 of these Listing Particulars.

“**AWL Change of Control**” means the occurrence of any of the following events or circumstances:

- (a) AWHL ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, AWL, in each case directly or indirectly; or
- (b) AWL 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 or the Programme Issuer.

“**AWL Regions**” has the meaning given to it in Chapter 5 of these Listing Particulars.

“**AWL Southeast Region**” has the meaning given to it in Chapter 5 of these Listing Particulars.

“**AWL VAT Group**” means the VAT group with registration number GB 600 4315 04, of which AWL is the representative member.

“**AWSE**” means Affinity Water Southeast Limited, a company incorporated with limited liability in England and Wales, registered number 02724316.

“**AWSS**” means Affinity Water Shared Services Limited, a company incorporated with limited liability in England and Wales, registered number 06814554.

“**Base Cash Flows**” means costs are then netted off against the receipts and savings to determine the annual cash flows thereof for each year included in the period over which the costs are to be measured.

“**Base Currency**” means pounds sterling.

“**Basic Terms Modifications**” has the meaning given to it in Condition 15(b) (*Meeting of Bondholders*).

“**Bearer Bonds**” means those of the Bonds which are in bearer form.

“**Bondholders**” means the holders from time to time of the Bonds.

“**Bonds**” means the Class A Bonds and/or the Class B Bonds and/or any Sub-Class thereof, as the context may require, and “**Bond**” shall be construed accordingly.

“**Bond Trust Deed**” means the bond trust deed dated on or about the Closing Date between, among others, the Programme Issuer and the Bond Trustee, under which the Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.

“**Bond Trustee**” means the bond trustee appointed pursuant to the Bond Trust Deed.

“**Bond Trustee Reserved Matters**” means those matters set out in Part C, Part 1 (*Bond Trustee Reserved Matters*) of Schedule 3 (*Reserved Matters*) to the STID.

“**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 or Drawdown Prospectus (as applicable);
- (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 US dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus (as applicable); 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.

“**Business Day Convention**” means either the Following Business Day Convention, Modified Following Business Day Convention or Preceding Business Day Convention, as applicable.

“**Calculation Agency Agreement**” means, in relation to the Bonds of any Class and/or Sub-Class, an agreement in or substantially in the form of Schedule 1 (*Form of Calculation Agency Agreement*) to the Agency Agreement.

“**Calculation Agent**” means, in relation to any Class and/or Sub-Class of Bonds, the person appointed as calculation agent in relation to such Class and/or Sub-Class of Bonds by the Programme 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 Class and/or Sub-Class 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 31 March 2013 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

“**Capital Expenditure**” means Capital Maintenance Expenditure and any expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the AWL Business Plan) relating to the acquisition of equipment, fixed assets, real property, intangible assets and other assets of a capital nature, or for the replacements or substitutions therefor or additions or improvements thereto, that in any such case have a useful life of more than one year together with costs incurred in connection therewith and provided that such expenditure is incurred in respect of maintenance non-infrastructure, infrastructure renewals expenditure or quality and supply-demand and other service enhancement expenditure.

“**Capital Expenditure Facility**” means the £70 million revolving capital expenditure facility provided to AWL pursuant to the Senior Facilities Agreement.

“**Capital Expenditure Facility Providers**” means each of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc or any successor thereto (together, the “**Capital Expenditure Facility Providers**”) that have agreed to provide a capital expenditure facility to AWL under the terms of the Senior Facilities Agreement.

“**Capital Maintenance Expenditure**” means expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the AWL Business Plan) on maintaining base service levels in the Appointed Business but excluding any expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply.

“**Cash Cover Account**” means (i) one or more cash cover accounts set up to provide cash cover (as defined in the Senior Facilities Agreement) in accordance with the terms of the Senior Facilities Agreement in the context of a Letter of Credit; and (ii) any other cash cover account set up in accordance with the terms of any other Authorised Credit Facility pursuant to which a letter of credit facility is provided.

“**Cash Expenses**” means the aggregate of all expenses including Capital Expenditure incurred by AWL in any period (excluding depreciation, IRC and interest on Financial Indebtedness).

“**Cash Manager**” means (i) during and after a Standstill Period (except where a Standstill Period is terminated pursuant to clause 16.4.1(c) (*Termination of Standstill*) of the STID), the Standstill Cash Manager, and (ii) at all other times AWL.

“**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 AWL in Ofwat’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 where there is no Final Determination. The “**CCD**” shall be AWL’s good faith estimate of such amount for such Test Period.

“**CCW**” means the Consumer Council for Water.

“**CD Amounts**” means, on the Closing Date, all amounts stated as payable for the account of the Programme Issuer out of the proceeds of Financial Indebtedness raised on the Closing Date.

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

“**CIS**” means Capital Expenditure Incentive Scheme introduced by Ofwat.

“**Class**” means in relation to the Bonds, each class of Bonds, the available Classes of Bonds being Class A Bonds and Class B 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 during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“**Class A Bonds**” means the Class A Bonds issued by the Programme Issuer from time to time under the Programme.

“**Class A Coupons**” means the coupons (if any) appertaining to interest bearing Class A Bonds in bearer form.

“**Class A Creditor**” means a provider of or creditor in respect of Class A Debt.

“**Class A Debt**” means any Financial Indebtedness that is for the purposes of the STID to be treated as Class A Debt and includes:

- (a) the Class A Bonds;
- (b) the Notes;
- (c) the Senior Term Facilities;
- (d) the Capital Expenditure Facility;
- (e) the Working Capital Facility;
- (f) the Authorised Credit Facilities designated in such Authorised Credit Facilities or related Accession Memorandum as Class A Debt;
- (g) the Finance Leases (other than the Existing Finance Leases) designated as Class A Debt;
- (h) the Class A Hedging Agreements; and
- (i) any other Financial Indebtedness designated as Class A Debt in the applicable Finance Document or related Accession Memorandum.

“**Class A Debt Instructing Group**” or “**Class A DIG**” means a group of representatives (each a “**Class A DIG Representative**”) of Qualifying Class A Creditors in respect of Qualifying Class A Debt, comprising:

- (a) in respect of each Authorised Credit Facility in respect of Class A Debt which is a bilateral agreement (by way of a loan, note certificate or otherwise), the relevant Qualifying Class A Creditor party to such Authorised Credit Facility;
- (b) in respect of each Authorised Credit Facility in respect of Class A Debt which is a multi-lateral agreement (other than the Class A Bonds and the Notes but including any loan agreement or notes where the lenders or noteholders are represented by an agent), the facility agent (or equivalent agent appointed by all of the Authorised Credit Providers party to such Authorised Credit Facility);
- (c) in respect of each Finance Lease designated as Class A Debt, the Finance Lessor party thereto;

- (d) in respect of the Class A Bonds, the Bond Trustee; and
- (e) in respect of the Notes, the Note Trustee.

“**Class A Debt Interest**” means, in relation to any Test Period, and in relation to the Obligors without double counting, interest on Financial Indebtedness designated as Class A Debt (including interest accreted by indexation of interest on any Indexed Bonds that are designated as Class A Debt but excluding accretions by indexation to the principal on any Indexed Bonds that are designated as Class A Debt and accretions by indexation to the notional amount under any RPI Linked Hedging Agreement designated as Class A Debt):

plus

- (a) Recurring Fees in respect of Financial Indebtedness designated as Class A Debt;
- (b) the net cash flow figure under all Interest Rate Hedging Agreements (excluding accretion by indexation to the notional amount) (including, for the avoidance of doubt, whether such figure is positive or negative);
- (c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, payable (as the case may be) designated as Class A Debt; and
- (d) interest in respect of unsecured Financial Indebtedness,

excluding

- (i) all fees other than Recurring Fees;
- (ii) amortisation of the costs of issue of such Class A Debt,

less

- (i) interest received or receivable (as the case may be) by any member of the Financing Group from a third party during such period (excluding any interest received or receivable by an Obligor under any Intra-Group Loan); or
- (ii) interest received or receivable (as the case may be) on any loan or other forms of Financial Indebtedness to Affiliates including any interest received or receivable in respect of any Class A Debt held by an Obligor,

provided that in each case in respect of a future Test Period (or part of a Test Period) such amounts shall be based on anticipated amounts as shown in the AWL Business Plan.

“**Class A Debt Liquidity Shortfall**” means with respect to any Payment Date there will be insufficient funds in the Debt Service Payment Account (after the operation of paragraphs 8.3 and 8.6 of Schedule 10 (*Cash Management*) of the CTA) to pay on such Payment Date any of the amounts scheduled to be paid in respect of items (i) – (vi) (inclusive) and, after deducting all payments to be made in priority thereto, item (xviii) of the Payment Priorities (excluding any termination amounts or accretion amounts payable under any Hedging Agreements set out under paragraphs 8.3(vi)(b) and (c) of Schedule 10 (*Cash Management*) of the CTA).

“**Class A Debt Service Reserve Account**” means the accounts of each of the Issuer and the Programme Issuer titled “**Class A Debt Service Reserve Account**” held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

“**Class A Hedging Agreement**” means each:

- (a) Super-Senior Interest Rate Hedging Agreement;

- (b) Super-Senior RPI Linked Hedging Agreement;
- (c) Pari Passu Interest Rate Hedging Agreement; and
- (d) Currency Hedging Agreement in respect of Class A Debt.

“**Class A ICR**” means the ratio of Net Cash Flow for each Test Period to Class A Debt Interest for each of the same Test Periods.

“**Class A Net Indebtedness**” means, as at any date, the aggregate of the Financing Group’s nominal Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date under and in connection with any Class A Debt:

- (a) including:
 - (i) accretions to the principal of any Indexed Bonds that are designated as Class A Debt and accretions by indexation to the notional amount under any RPI Linked Hedging Agreement; and
 - (ii) the nominal amount of any Financial Indebtedness pursuant to paragraph (e) of the definition of Permitted Financial Indebtedness; and
- (b) excluding any un-crystallised mark to market amount relating to any Hedging Agreement (other than Hedging Agreements having the commercial effect of annuity payments),

and in each case, together with (without double counting) all indexation accrued on any such liabilities which are indexed,

less:

- (c) the value of all Authorised Investments and other amounts standing to the credit of any Account (other than any Excluded Accounts and other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date),

provided that, where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated: (i) in respect of debt with an associated Currency Hedging Agreement, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreement; or (ii) in respect of debt with no associated Currency Hedging Agreement, 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 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 Receipts**” means instalment receipts in relation to Class A Bonds.

“**Class A Required Balance**” means:

- (a) if the Senior RAR as calculated at the most recently occurring Calculation Date for each Test Period is equal to or less than 67.5 per cent., zero; and
- (b) if the Senior RAR as calculated at the most recently occurring Calculation Date for any Test Period is greater than 67.5 per cent., an amount equal to the next 12 months’ interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) and other finance charges (falling within the definition of Class A Debt Interest) forecast to be due on the Class A Debt of the Financing Group after taking into account when determining the relevant interest charge the anticipated real flow receipts under any Hedging Agreement then in place in respect of such Class A Debt.

“**Class A Talons**” means talons in relation to Class A Coupons or Class A Receipts.

“**Class B Bonds**” means the Class B Bonds issued by the Programme Issuer under the Programme.

“**Class B Coupons**” means the coupons (if any) appertaining to interest bearing Class B Bonds in bearer form.

“**Class B Creditor**” means a provider of or a creditor in respect of Class B Debt.

“**Class B Debt**” means any Financial Indebtedness that is, for the purposes of the STID, to be treated as Class B Debt and includes:

- (a) the Class B Bonds;
- (b) the Authorised Credit Facilities designated as Class B Debt in such Authorised Credit Facilities or related Accession Memorandum;
- (c) the Finance Leases (other than the Existing Finance Leases) designated as Class B Debt;
- (d) the Class B Hedging Agreements; and
- (e) any other Financial Indebtedness designated as Class B Debt in the applicable Finance Document or related Accession Memorandum.

“**Class B Debt Instructing Group**” or “**Class B DIG**” means a group of representatives (each a “**Class B DIG Representative**”) of Qualifying Class B Creditors in respect of Qualifying Class B Debt, comprising:

- (a) in respect of each Authorised Credit Facility in respect of Class B Debt which is a bilateral agreement (by way of a loan, note certificate or otherwise), the relevant Qualifying Class B Creditors party to such Authorised Credit Facility;
- (b) in respect of each Authorised Credit Facility in respect of Class B Debt which is a multi-lateral agreement (other than Class B Bonds but including any loan agreement or notes where the lenders or noteholders are represented by an agent), the facility agent (or equivalent agent appointed by all of the Authorised Credit Providers party to such Authorised Credit Facility);
- (c) in respect of each Finance Lease designated as Class B Debt, the Finance Lessor party thereto; and
- (d) in respect of the Class B Bonds, the Bond Trustee.

“**Class B Debt Liquidity Shortfall**” means with respect to any Payment Date there will be insufficient funds in the Debt Service Payment Account to pay on such Payment Date any of the amounts scheduled to be paid in respect of item (xi) and, after deducting any payments to be made in priority thereto, item (xix) of the Payment Priorities (excluding any termination amounts or accretion amounts payable under any Hedging Agreements pursuant to paragraph 8.3(xi)(b) of Schedule 10 (*Cash management*) of the CTA).

“**Class B Debt Service Reserve Account**” means any account of the Programme Issuer titled “Class B Debt Service Reserve Account” held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

“**Class B Hedging Agreement**” means each Currency Hedging Agreement in respect of Class B Debt.

“**Class B Receipts**” means instalment receipts in relation to Class B Bonds.

“**Class B Required Balance**” means, on any Payment Date, an amount equal to the next 12 months’ interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) and other finance charges (falling within the definition of Senior Debt Interest and relating to Class B Debt) forecast to be due on the Class B Debt of the Financing Group after taking into account when determining the Relevant Interest Charge the anticipated real flow receipts under any Hedging Agreement then in place in respect of such Class B Debt.

“**Class B Talons**” means talons in relation to Class B Coupons and Class B Receipts.

“**Clearing System Business Day**” means Monday to Friday inclusive, except 25 December and 1 January.

“**Closing Date**” means 4 February 2013.

“**common carriage**” means the method of introducing competition when a water supply licensee introduces water into the supply system and supplies water to its customer’s eligible premises using a Regulated Company’s network.

“**Common Documents**” means the Security Documents, the Common Terms Agreement, the Master Definitions Agreement, the Account Bank Agreement and the Tax Deed of Covenant.

“**Common Terms Agreement**” or “**CTA**” means the common terms agreement entered into on the Closing Date between the parties to this Agreement.

“**Companies Act**” means the Companies Act 2006.

“**Compliance Certificate**” means a certificate, substantially in the form of Schedule 8 (*Form of Compliance Certificate*) to the CTA in which the Transaction Agent, on behalf of each of the Issuer, the Programme Issuer and AWL, 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 Notes set out in the Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.

“**Consortium of Equity Owners**” means a consortium of Infracapital Partners II, Morgan Stanley Infrastructure Partners and Beryl Datura Investments Ltd., the majority shareholders in AWHL.

“**Contractor**” means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement.

“**Control**” of one person by another person means (other than in the Tax Deed of Covenant where it has the meaning defined therein) 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 Note, such coupon being in the form or substantially in the form set out in Part C (*Form of Original Coupon*) of Schedule 2 to the Trust Deed and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 10 (*Replacement of Notes, Coupons and Talons*).

“**Couponholders**” means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.

“**Court**” or “**High Court**” means the High Court of England and Wales.

“**Covenantors**” means AWAHL and the Parent.

“**CP Agreement**” means the conditions precedent agreement, dated on or around the date of the Prospectus between, among others, the Bond Trustee, the Security Trustee and the Obligor.

“**CRA Regulation**” means Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

“**CRD**” means the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU as amended by Directive 2009/111/EC).

“**Currency Hedging Agreement**” means any Hedging Agreement with a Hedging Counterparty in respect of one or more Hedging Transactions to hedge against exposure to currency exchange rates.

“**Date Prior**” means, at any time, the date which is one day before the next Periodic Review Effective Date.

“**Day Count Fraction**” has the meaning given to it in the Condition 4 (*Interest*).

“**Dealership Agreement**” means the agreement dated 18 January 2013 between the Programme Issuer, the other Obligors, the Arranger 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 Service Payment Account**” means the account of AWL entitled the “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 each of the Class A Debt Service Reserve Accounts and the Class B Debt Service Reserve Account.

“**Decision Period**” has the meaning given to it in the STID.

“**Deed of Variation**” means the Deed of Variation between the Issuer, AWL, AWHL, the Programme Issuer, Deutsche Trustee Company Limited and Citicorp Trustee Company Limited dated 4 February 2013.

“**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 an Event of Default.

“**Deferral of K**” means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by AWL to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if AWL had established prices at the full price cap available to it under the Instrument of Appointment.

“**Definitive Note**” means definitive Notes in bearer form issued by the Issuer in denominations of £1,000, £10,000 and £100,000, substantially in the form set out in Part A of Schedule 2 to the Trust Deed for which the Permanent Global Note may be exchanged in the limited circumstances described in the Permanent Global Note.

“**DEFRA**” means the United Kingdom Department for the Environment, Food and Rural Affairs.

“**DETR**” means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to DEFRA.

“**DIG Representative**” means each Class A DIG Representative and each Class B DIG Representative.

“**Direction Notice**” means, in respect of any matter which is not the subject of a STID Proposal or an Instruction Notice, a request made by the Security Trustee for an instruction from the Qualifying Secured

Creditors as to whether the Security Trustee should agree to a consent, waiver or modification or exercise a right or discretion pursuant to the Finance Documents and the manner in which it should do so.

“**Directors**” means the board of directors for the time being of the relevant Obligor.

“**Discharge Date**” means the date on which all obligations of the Obligors under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.

“**Discretion Matter**” shall have the meaning given to it in the STID.

“**Dissenting Creditor**” means any Matter Determination Dissenting Creditor and/or any Entrenched Rights Dissenting Creditor (as the case may be).

“**Dissenting Notice**” means a Matter Determination Dissenting Notice and/or an Entrenched Rights Dissenting Notice (as the case may be).

“**Distribution**” means, 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 (including pursuant to a Management Services Agreement and pursuant to any agreement made or to be made between AWL or any other member of the Financing Group in relation to the provision of financial, operational or corporate advisory services) to the extent that the aggregate of all such payments does not exceed 0.1 per cent. of RCV in any consecutive twelve month period; or
- (b) any payments made to such persons pursuant to any Outsourcing Agreements which were entered into and remain in compliance with sub-paragraph 25 (*Outsourcing Policy*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the Common Terms Agreement save that if any Outsourcing Agreement should cease to comply in all material respects with such covenant, all payments thereunder made by AWL 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 AWL 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 0.1 per cent. of RCV in any consecutive twelve month period; or
- (d) any payments made to such persons in respect of a Permitted Post Closing Event; or
- (e) payments made in respect of any Permitted Legacy Payment.

“**dollars**” means the lawful currency of the United States of America.

“**Drawdown Prospectus**” means a separate prospectus specific to a Tranche of the Bonds.

“**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 a lender from time to time under a DSR Liquidity Facility.

“**DWI**” means Drinking Water Inspectorate.

“**EA**” means the England and Wales Environment Agency, the executive non-departmental public body responsible to the Secretary of State for the Environment, Food and Rural Affairs and a Welsh Government Sponsored Body responsible to the Minister for the Environment and Sustainable Development.

“**Emergency**” means the disruption of the normal service of the provision of water services which is treated as an emergency under AWL’s policies, standards and procedures for emergency planning manual.

“**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 Hedging Termination or the cancellation following an Event of Default of any remaining commitments under an Authorised Credit Facility in full or, as the case may be, an acceleration 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.

“**Enhanced Rights Matter**” shall have the meaning given to it in the STID.

“**Enterprise Act**” means the Enterprise Act 2002.

“**Entrenched Rights**” means the rights of the Secured Creditors provided by Schedule 2 (*Entrenched Rights*) of the STID.

“**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 AWL.

“**Environmental Claim**” means any claim, proceeding, formal notice or investigation by the relevant duly appointed person pursuant to any Environmental Law.

“**Environmental Law**” means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which AWL 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.

“**Equipment**” means, in relation to a Finance Lease or an Existing 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.

“**ESMA**” means European Securities and Market Association.

“**EU**” means the European Union.

“**Euro**”, “**euro**” or “**€**” 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.

“**EU Savings Directive**” means the EU Council Directive 2003/48/EC regarding the taxation of savings income.

“**Event of Default**” means (other than in any Hedging Agreement when used in relation to a Hedging Counterparty, where “**Event of Default**” has the meaning given to it in that Hedging Agreement) an event specified as such in Schedule 6 (*Events of Default*) to the CTA.

“**Excess Funds**” means amounts standing to the credit of the Debt Service Payment Account at the end of any Test Period.

“**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 8.6 (*Procedure for Voting Matters – STID Voting Request*) of the STID on the date that the STID Voting Request is dated; or
- (b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount or the Principal Amount Outstanding is required,

and in each case, as notified by the Agent Bank to the Security Trustee.

“**Excluded Accounts**” means:

- (a) the O&M Reserve Accounts, to the extent that the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant O&M Reserve Facility;
- (b) the Debt Service Reserve Accounts, to the extent that the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant DSR Liquidity Facility;
- (c) each Cash Cover Account; and
- (d) each Swap Collateral Account.

“**Existing Authorised Credit Providers**” means the Capital Expenditure Facility Providers and the Working Capital Facility Providers.

“**Existing Dormant Subsidiaries**” means:

- (a) Three Valleys Water Limited;
- (b) Tendring Hundred Water Services Limited;
- (c) Folkestone and Dover Water Services Limited; and
- (d) White Cliffs Water Limited,

being wholly-owned dormant subsidiaries of AWL on the Closing Date.

“**Existing Finance Leases**” means the finance leases existing at the date hereof between AWL and certain counterparties, as will be further defined in the MDA, each as amended, supplemented, assigned and novated prior to the Closing Date, and each an “**Existing Finance Lease**”.

“**Existing Finance Lessors**” means each counterparty to an Existing Finance Lease.

“**Existing Hedging Agreements**” means an ISDA Master and Schedule attached thereto between AWL and each of the Existing Hedging Counterparties dated on or about the Closing Date, as supplemented by the confirmations novated to AWL pursuant to each respective Novation Agreement.

“Existing Hedging Counterparties” means each of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc.

“Existing Hedging Transaction” means each Hedging Transaction novated to AWL on or about the Closing Date pursuant to each respective Novation Agreement.

“Existing Issuer DSR Proportion” means a proportion of the Class A Required Balance attributable to the Issuer in such proportion as AWL shall reasonably determine.

“Extension Period” has the meaning given to it in the STID.

“Extraordinary Resolution” has the meaning, in relation to the Bonds, set out in Paragraph 19 of Part A of Schedule 4 (*Provisions for Meetings of Bondholders*) to the Bond Trust Deed, and in relation to the Notes, set out in Paragraph 1 of Schedule 3 (*Provisions for Meetings of Noteholders*) to the Trust Deed (as the context requires).

“Facility Agent” means any facility agent under any Authorised Credit Facility.

“Final Determination” means the final price determination made by Ofwat in connection with a Periodic Review.

“Final Terms” means the final terms issued in relation to each Class and/or Sub-Class or Tranche of Bonds as a supplement to the terms and conditions of the Bonds and giving details of the Class and/or Sub-Class or Tranche.

“Finance Documents” means:

- (a) the Security Documents;
- (b) the Bond Trust Deed;
- (c) the Trust Deed;
- (d) the Bonds (including the applicable Final Terms or Drawdown Prospectus, as applicable);
- (e) the Notes;
- (f) the Finance Lease Documents;
- (g) the Hedging Agreements (including the Existing Hedging Agreements) and any other credit support or collateral documentation entered into in connection therewith or pursuant thereto;
- (h) the CTA;
- (i) the Programme Issuer/AWL Loan Agreements;
- (j) the Issuer/AWL Loan Agreements;
- (k) each Liquidity Facility Agreement;
- (l) the Agency Agreement;
- (m) the Master Definitions Agreement;
- (n) the Account Bank Agreement;
- (o) the CP Agreement;
- (p) the Tax Deed of Covenant;

- (q) the Deed of Variation;
- (r) the SFA Finance Documents;
- (s) any other Authorised Credit Facilities; and
- (t) each agreement or other instrument between the Issuer, AWL or the Programme Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by the Transaction Agent, 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 AWL after the Closing Date 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 and has agreed to be bound by the terms of Schedule 11 (*Provisions relating to Future Finance Leases*) to the CTA) permitted to be entered into under the terms of the CTA, each a “**Finance Lease**”.

“**Finance Lessors**” means any person entering into a Finance Lease with AWL after the Closing Date, 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 any Issuing Bank) including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

“**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, provided that: (i) such finance lease, capital lease or hire purchase contract is documented by an agreement which gives rise, or purports to give rise, to a legal right of a creditor to claim money or moneys worth from a debtor (and shall not include any deemed liabilities which arise as a result of Applicable Accounting Principles without connection to such a legal right); and (ii) the Grafham Water Arrangement and the Ardleigh Arrangement shall not be treated as finance leases, capital leases or hire purchase contracts;
- (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);
- (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 120 days (excluding, for the avoidance of doubt, the Grafham Water Arrangement and the Ardleigh Arrangement);

- (i) any termination amount due and unpaid from any member of the 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 AWL's trading and upon terms usual for such trade) (excluding, for the avoidance of doubt, the Grafham Water Arrangement and the Ardleigh Arrangement);
- (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;
- (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 Financing Group to another),

excluding the Permitted Legacy Loan.

"Financial Ratio" means each of:

- (a) the Class A RAR;
- (b) the Senior RAR;
- (c) the Class A Adjusted ICR;
- (d) the Senior Adjusted ICR;
- (e) the Class A Average Adjusted ICR; and
- (f) the Senior Average Adjusted ICR.

"Financial Statements" means, at any time, the most recent financial statements (excluding, for the avoidance of doubt, regulatory accounts) 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.

"Financing Group" means AWHL, AWL, the Issuer, the Programme Issuer and any other Permitted Subsidiaries.

"Fitch" means Fitch Ratings Limited (but references to Fitch in the Finance Documents shall be disregarded until such time as the Transaction Agent exercises the Fitch Appointment Right).

"Fitch Appointment Right" means the right of the Transaction Agent (in its absolute discretion and without reference to the Security Trustee or any Secured Creditor) to appoint Fitch to rate any of the Bonds and the Notes from time to time.

"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 Programme Issuer and the relevant dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus (as applicable)).

"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 Programme Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus (as applicable)).

“**Following Business Day Convention**” has the meaning given to it in Condition 6(1) (*Definitions*).

“**FSMA**” means the Financial Services and Markets Act 2000.

“**Further Notes**” means the £50,000,000 5.875 per cent. guaranteed bonds due 2026 issued by the Issuer on the Issue Date and guaranteed by AWL, AWHL and the Programme Issuer and includes, where the context permits, the coupons in respect of those notes.

“**Global Note**” means the Temporary Global Note and/or the Permanent Global Note, as the context may require.

“**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 as those applying to AWL having regard to the regulatory pricing allowances and practice in England and Wales’ regulated water industry at the relevant time.

“**Grafham Water Arrangement**” means the statutory entitlement (pursuant to the Great Ouse Water Act 1961), held by AWL to take water from the Grafham Water reservoir owned by Anglian Water which includes a cost sharing arrangement pursuant to which costs are allocated between AWL and Anglian Water using a financial model which has been agreed between AWL and Anglian Water Services Limited and any related arrangement concerning the allocation of costs or drawing of water in respect of Grafham Water.

“**Guarantee**” means, in relation to each Guarantor, the guarantee of such Guarantor given by it pursuant to the Security Document to which it is a party.

“**Guarantors**” means AWHL, AWL, the Issuer and the Programme Issuer in their capacity as Guarantors pursuant to the Security Agreement together with any other entity which accedes to the Security Agreement as a Chargor in accordance with clause 22.3 (*Further Subsidiaries*) thereof, each in their capacity as a “**Guarantor**”.

“**Hedging Agreement**” means any ISDA Master Agreement (including the Schedule and the Credit Support Annex thereto, and any Treasury Transactions thereunder) entered or to be entered into by the Issuer and/or the Programme Issuer and/or AWL with Hedging 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 Schedule 7 (*Hedging Policy*) to the CTA which will mandate the form of the Hedging Agreement and certain mandatory provisions and references to “**Hedging Agreements**” shall be construed accordingly.

“**Hedging Counterparties**” means (i) the Existing Hedging Counterparties; and (ii) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID and “**Hedging Counterparty**” means any of such parties.

“**Hedging Counterparty Reserved Matters**” means those matters set out in Part D (*Hedging Counterparty Reserved Matters*) of Schedule 3 (*Reserved Matters*) to the STID.

“**Hedging Policy**” means the initial hedging policy applicable to AWL, the Issuer and the Programme Issuer set out in Schedule 7 (*Hedging Policy*) to the CTA as such hedging policy may be, subject to Part E (*Entrenched Right of the Hedging Counterparties*) of the STID, amended from time to time by an agreement between the Security Trustee, AWL, the Issuer, the Programme Issuer and, in certain circumstances, the Hedging Counterparties, in accordance with the STID.

“**Hedging Transaction**” means any Treasury Transaction evidenced by a confirmation entered or to be entered into pursuant to a Hedging Agreement by the Issuer and/or the Programme Issuer and/or AWL with a

Hedging Counterparty in accordance with the Hedging Policy, and references to “**Hedging Transactions**” shall be construed accordingly.

“**Holding Company**” means a holding company within the meaning of section 1160 of the Companies Act 2006.

“**IDOK**” means an interim determination of K as provided for in Part IV of condition B of the Instrument of Appointment.

“**Income**” means any interest, dividends or other income arising from or in respect of an Authorised Investment.

“**Independent Enforcement Action**” means any enforcement action as a result of any breach by any Secured Creditor of any of the provisions set out in clause 14.1 (*Undertakings of Secured Creditors*) of the STID.

“**Independent Review**” means an independent review resulting from a Trigger Event as set out in Paragraph 3 (*Further Information and Remedial Plan*) of Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) to the CTA.

“**Initial Date Representation**” means:

- (a) in respect of the issue of any Class and/or Sub-Class or Tranche of Bonds after the Closing Date, each representation set out in Schedule 2 (*General Representations*) to the CTA and Schedule 3 (*AWL Representations*) to the CTA other than Paragraph 5 (*No Default or Potential Trigger Event*), Paragraph 26(b) (*Financial Indebtedness*) and Paragraph 28 (*Treasury Transactions*) of Schedule 2 (*General Representations*) to the CTA; and
- (b) in respect of the entering into of a new Authorised Credit Facility after the Closing Date, each of those representations in Schedule 2 (*General Representations*) to the CTA and Schedule 3 (*AWL Representations*) to the CTA other than Paragraph 26(b) (*Financial Indebtedness*), Paragraph 28 (*Treasury Transactions*), Paragraph 30 (*Bonds and/or Existing Issuer Bonds valid and binding*) and Paragraph 31 (*Status of Bonds and/or Existing Issuer Bonds*) of Schedule 2 (*General Representations*),

provided that in respect of (a) and (b) above:

- (A) the representations contained in Paragraph 6 (*Validity and admissibility in evidence*), Paragraph 7 (*Authorisations*), Paragraph 11 (*No deduction or withholding*), Paragraph 21 (*Full Disclosure*), Paragraph 23 (*Choice of Law*), Paragraph 30 (*Bonds and/or Existing Issuer Bonds valid and binding*) and Paragraph 31 (*Status of Bonds and/or Existing Issuer Bonds*) of Schedule 2 (*General Representations*) to the CTA shall be limited and refer only to the new Tranche of Bonds or the new Authorised Credit Facility (as the case may be) and the relevant issue date in respect thereof; and
- (B) the representations contained in Paragraph 2 (*Assumptions*) of Schedule 3 (*AWL Representations*) to the CTA shall be limited to any Investor Report or Compliance Certificate provided by AWL with such Information Memorandum referred to in paragraph (B) above prepared in respect of such Tranche of Bonds or such Authorised Credit Facility (as the case may be).

“**Insolvency Act**” means the Insolvency Act 1986.

“**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, or the Programme Issuer, by the Security Trustee) 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 or the Programme Issuer, the Security Trustee or any receiver appointed by the Security Trustee) 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 or the Programme Issuer by the Security Trustee or any receiver appointed by the Security Trustee) 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 or the Programme 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.

“**Instruction Notice**” shall have the meaning given to it in the STID.

“**Instrument of Appointment**” 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) (as amended/varied from time to time and as appended to the variation instrument dated 20 July 2012 and effective as of 23:59 on 27 July 2012, as amended from time to time) under which the Secretary of State for the Environment appointed AWL as a water undertaker under the WIA for the areas described in the Instrument of Appointment, as modified or amended from time to time.

“**Instrument of Appointment Condition**” means any of the conditions contained in the Instrument of Appointment.

“**Insurances**” means, as the context may require, any or all contracts or policies 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.

“**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.

“**Intercreditor Arrangements**” means the intercreditor arrangements in respect of the Financing Group as contained in the STID and the CTA.

“**Interest Payment Date**” means in relation to the Notes, 13 July in each year, subject as provided in Condition 6 (*Payments*).

“**Interest Rate Hedging Agreement**” means any Hedging Agreement with a Hedging Counterparty in respect of one or more Treasury Transactions to hedge exposure to interest rates, including any RPI Linked Hedging Agreement or any other Hedging Agreement specified as such in the relevant Accession Memorandum to the STID.

“**Intra-Group Debt Service Distribution**” means any distribution or payment in respect of a Permitted Tax Loss Transaction between members of the Financing Group.

“**Intra-Group Loans**” means the amounts outstanding, from time to time, in respect of any financial indebtedness between members of the Financing Group.

“**Investment Grade**” means a rating of at least P-3 (short term) and Baa3 (long-term) by Moody’s, A-3 (short-term) and BBB- (long term) by S&P and F3 (short-term) and BBB- (long-term) by Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent).

“**Investor Report**” means each report produced by the Transaction Agent to be delivered within the earlier of 45 days after publication of the relevant Financial Statements or 120 days from 31 March or 90 days from 30 September in each year, substantially in the form set out in Schedule 9 (*Form of Investor Report*) to 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 AWL in Ofwat’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 AWL’s good faith present estimate of such infrastructure renewals charge for such Test Period.

“**ISDA Definitions**” means the 2000 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.) or, if so specified in the relevant Final Terms or Drawdown Prospectus, 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 specified in the relevant Final Terms or Drawdown Prospectus) as published by the International Swaps and Derivatives Association, Inc.).

“**ISDA Master Agreement**” means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

“**Issue Date**” means 16 July 2014.

“**Issuer**” means Affinity Water Finance (2004) PLC (formerly known as Affinity Water Finance (2004) Limited, prior to which it was known as Affinity Water Finance (2004) PLC, prior to which it was known as Veolia Water Central Finance PLC and prior to that, Three Valleys Water Finance PLC), a company incorporated with limited liability in England and Wales, registered number 05139236.

“**Issuer/AWL Loan Agreements**” means the existing loan agreement entered into between the Issuer (as lender) and AWL (as borrower) on or about the Closing Date and any other loan agreement entered into between the Issuer as lender and AWL as borrower and each an “**Issuer/AWL Loan Agreement**”.

“**Issuing Bank**” means the any financial institution that agrees to become an issuing bank under an Authorised Credit Facility (in accordance with the terms thereof) and accedes to the terms of the STID and CTA.

“**Joint Venture**” means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Business or Permitted Non-Appointed Business by AWL but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with Paragraph 25 (*Outsourcing Policy*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the Common Terms Agreement.

“**K**” means the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for water supply services may be increased, decreased or kept constant and, if a Different Price Control Mechanism is introduced or implemented for any of these services, “**K**” shall mean the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for their wholesale activities may be increased, decreased or kept constant.

“**Lease Calculation Cashflow**” means, in respect of any Test Period commencing on 1 April in any year or, as the case may be, the Pre-Test Period, for any Finance Lease, a cashflow 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 Test Period and in accordance with its terms, the CTA 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 Test Period or, as the case may be, the Pre-Test Period under the heading “**interest**” (or the equivalent thereof (howsoever worded)) in such cashflow 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 the 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 Test Period and as agreed between AWL and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest, or where, in respect of a Finance Lease a rate of interest in respect of a Test Period, or as the case may be, the Pre-Test Period, in question has previously been determined prior to the relevant Lease Calculation Date in accordance with the terms of that Finance Lease, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest or, as the case may be, such previously determined 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 Test Period commencing on 1 April in any year or the Pre-Test Period, as the case may be, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period or the Pre-Test Period shall also include a cashflow 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 cashflow statement, the same estimated interest rates as were used in preparation of the original cashflow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that Test Period or the Pre-Test Period, as the case may be.

“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 Test Period to commence on 1 April immediately after the date referred to in paragraph (a) above; and
- (c) each anniversary of the date referred to in paragraph (b) above,

save that where any date referred to in this definition 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 Test Period commencing on 1 April in any year or the Pre-Test Period, the lower of: (i) the aggregate Notional Amount calculated with respect to such Finance Lease; and (ii) the aggregate amount of rental payments payable to the Finance Lessor under such Finance Lease during such Test Period or, as the case may be, the Pre-Test 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).

“Legacy Chertsey Security” means a charge over AWL’s freehold interest in the land on the south-east side of Ferry Lane, Laleham, Chertsey with title number SY349061 recorded on the Land Register at first registration.

“Legacy Debenture Stock” means the following AWL debenture stock issued before the Closing Date:

- (a) 4 per cent. irredeemable consolidated debenture stock with an outstanding amount of approximately £9,000 on the Closing Date;
- (b) 4 per cent. irredeemable debenture stock with an outstanding amount of approximately £1,000 on the Closing Date;
- (c) 4.25 per cent. irredeemable debenture stock with an outstanding amount of approximately £1,000 on the Closing Date;
- (d) 5 per cent. irredeemable debenture stock with an outstanding amount of approximately £20,000 on the Closing Date; and
- (e) 5.25 per cent. irredeemable debenture stock with an outstanding amount of approximately £1,000 on the Closing Date.

“Letter of Credit” shall have the meaning given to it in the Authorised Credit Facility under which it is issued.

"**LF Event of Default**" has the meaning given to such term in Paragraph 3 of Schedule 12 (*DSR Liquidity Facilities/O&M Reserve Facility Terms*) to the CTA.

"**LF Provider Minimum Rating**" means in respect of:

- (a) Moodys: P-1;
- (b) S&P: A-1; and
- (c) Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent): F1,

or, in each case, such lower rating level notified in writing by AWL to the Security Trustee:

- (i) which, in the opinion of AWL having discussed with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch negative (or equivalent) of the then current ratings ascribed to any Class and/or Sub-Class of Bonds and/or the Notes); and
- (ii) provided that such rating shall not be required from any such Rating Agency that is not then rating the Bonds and/or the Notes.

"**Liability**" means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including in respect of taxes, duties, levies, imposts and other charges) and including any irrecoverable value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis.

"**LIBOR**" has the meaning given to that term in the relevant Finance Document.

"**Liquidity Facility**" means a DSR Liquidity Facility or an O&M Reserve Facility made under a Liquidity Facility Agreement and "**Liquidity Facilities**" means all of them.

"**Liquidity Facility Agent**" means, in respect of any 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 12 (*DSR Liquidity Facilities/O&M Reserve Facility Terms*) to the CTA, as established in connection with each Class and/or Sub-Class of Bonds and the Notes issued by or any other Authorised Credit Facility provided to, the Issuer, the Programme Issuer or AWL (as the case may be) or with 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.

"**Listing Rules**" means the Listing Rules of the Financial Conduct Authority.

"**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 repayment in full of the Qualifying Class A Debt, 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 11 (*Voting*) and clause 10.1 (*Notification of Outstanding Principal Amount of Qualifying Secured Debt*) of the STID).

"**Make-Whole Amount**" means any amount above par payable on redemption of any Senior Debt except where such amount is limited to accrued interest.

“Management Services Agreement” means any agreement between AWL and an Associate pursuant to which such Associate provides management services to AWL, including, but not limited to, in respect of tax, treasury, insurance, accounts and/or audit functions and/or the provision of directors to the Financing Group.

“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 in Financial Instruments Directive” means Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

“Master Definitions Agreement” or **“MDA”** means a master definitions agreement entered into on the Closing Date between, among others, the Security Trustee, the Obligors and the Bond Trustee.

“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 financial condition of AWL, the Issuer, the Programme Issuer, or of the Financing Group taken as a whole;
- (b) the ability of any member of the 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 AWL to perform or comply with any of its material obligations under the Instrument of Appointment or the WIA.

“Matter Determination Dissenting Creditor” has the meaning given to it in the STID.

“Matter Determination Dissenting Notice” has the meaning given to it in the STID.

“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.

“Member State” means a member state of the European Union.

“Modified Following Business Day Convention” has the meaning given to it in Condition 6(e) (*Business Day Convention*).

“Monthly Payment Amount” has the meaning given to it in the CTA.

“Moody’s” means Moody’s Investors Service Limited, or any successor to the rating agency business of Moody’s Investors Service Limited.

“Net Cash Flow” means, in respect of a Test Period, and without double counting, the appointed revenue and non-appointed revenue of AWL after:

- (a) *deducting* appointed operating expenditure and non-appointed operating expenditure;
- (b) *adding* Deferrals of K and recoverable VAT;
- (c) *adding* back pension service cost (to the extent included in appointed operating expenditure);

- (d) *deducting* total pension cash contributions;
- (e) *deducting* any net increase in trade and other debtors in respect of operating items, prepayments and trading stock (excluding Capital Expenditure debtors);
- (f) *adding* any net decrease in trade and other debtors in respect of operating items, prepayments and trading stock (excluding Capital Expenditure debtors);
- (g) *deducting* any net decrease in trade and other creditors in respect of operating items (not being in respect of Financial Indebtedness) and accrued expenses, accrued costs and deferred income (excluding Capital Expenditure creditors);
- (h) *adding* any net increase in trade and other creditors in respect of operating items (not being in respect of Financial Indebtedness) and accrued expenses, accrued costs and deferred income (excluding Capital Expenditure creditors);
- (i) *adding* the amount of any cash rebate or cash refund of Tax received;
- (j) deducting all amounts of cash Tax paid;
- (k) *adding* any exceptional or one-off expenditure items;
- (l) *deducting* any exceptional or one-off items to the extent that such items represent receipts and/or are included in appointed revenue or non-appointed revenue;

provided that in each case that in respect of a future Test Period (or part of a Test Period) such amounts shall be based on anticipated amounts as shown in the AWL Business Plan.

“**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 Business**” means any business carried out by AWL other than business which is Appointed Business as at the Closing Date.

“**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.

“**Non-Financing Group**” means any member of the Affinity Group which is not a member of the Financing Group.

“**Noteholders**” means the holders from time to time of the Notes.

“**Notes**” means together the Original Notes and the Further Notes.

“**Note Trustee**” means Deutsche Trustee Company Limited or any successor trustee appointed in accordance with the Trust Deed and who has acceded to the STID.

“**Note Trustee Reserved Matters**” means those matters set out in Part C, Part 2 (*Existing Issuer Bond Trustee Reserved Matters*) of Schedule 3 (*Reserved Matters*) to the STID and defined as the “Existing Issuer Bond Trustee Reserved Matters” therein.

“**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**” means any item formally notified by the Ofwat to AWL as not having been allowed for in full or part in K provided that there has been no Periodic Review subsequent to that notification.

“**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 next succeeding Test Period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant Test Period or, as the case may be, the Pre-Test 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.

“**Novation Agreement**” means each novation agreement between each Existing Hedging Counterparty as Remaining Party, AWL as Transferee and Affinity Water Acquisitions Limited as Transferor (in each case as defined in the respective novation agreement) dated on or about the Closing Date.

“**O&M Reserve**” means the amounts standing to the credit of the O&M Reserve Accounts.

“**O&M Reserve Accounts**” means the account of AWL entitled “**O&M Reserve Account**” held at the Account Bank and includes any sub-account relating to such accounts and any replacement account or accounts 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 a lender from time to time under an O&M Reserve Facility.

“**O&M Reserve Required Amount**” means not less than:

- (a) if the Senior RAR as calculated at the most recently occurring Calculation Date for each Test Period (taking into account the incurrence of any Permitted Further Financial Indebtedness following such Calculation Date) is equal to or lower than 67.5 per cent., zero; and
- (b) if the Senior RAR as calculated at the most recently occurring Calculation Date for any Test Period (taking into account the incurrence of any Permitted Further Financial Indebtedness following such Calculation Date) is greater than 67.5 per cent., 10 per cent. of AWL’s Projected Operating Expenditure and Capital Maintenance Expenditure for the next succeeding 12 months,

in each case, as determined on 31 March in each year in its budget for that Test Period.

“**Obligors**” means AWL, AWHL, the Issuer and the Programme Issuer, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof (including any Permitted Subsidiary), and “**Obligor**” means any of them.

“**Official List**” means the official list of the UK Listing Authority.

“**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 at the Account Bank specified in the Account Bank Agreement as an Operating Account including any sub-account and any replacement account or other operating accounts from time to time.

“**Order**” means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

“**Original Notes**” means the £200,000,000 5.875 per cent. guaranteed bonds due 2026 issued by the Issuer on 13 July 2004 and guaranteed by AWL and includes, where the context permits, the coupons in respect of those notes.

“**Other Finance Document**” means a Finance Document (which is not a Common Document).

“**Other Parties**” means a Dealer, the Arranger, the Bond Trustee, the Security Trustee or any of the Hedging Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Finance Lessors or the members of the Affinity Group (other than the Programme Issuer and the other Obligors) or any person affiliated with any of them.

“**Outsourcing Agreement**” means (other than the Transitional Agreements and the Shared Services Agreement) any agreement pursuant to which AWL 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 services that, in the case of any outsourcing AWL could, if not outsourced, perform itself.

“**Outstanding**” means:

- (A) in relation to the Bonds of all or any Class and/or Sub-Class, all the Bonds of such Class and/or 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 Programme 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*) of the terms and conditions of the Bonds) 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*) of the terms and conditions of the Bonds;
 - (d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*) of the terms and conditions of the Bonds;
 - (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*) of the terms and conditions of the Bonds;
 - (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*) of the terms and conditions of the Bonds; 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 certificates, 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 Class and/or Sub-Class;
- (ii) the determination of how many and which Bonds of any Class and/or Sub-Class are for the time being outstanding for the purposes of Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*) of the terms and conditions of the Bonds, clause 11 (*Voting*) of the STID and Schedule 4 (*Meeting and Voting Provisions*) 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 Class and/or 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 Class and/or Sub-Class,

those Bonds of the relevant Class and/or Sub-Class (if any) which are for the time being held by a Connected Party (unless and until ceasing to be so held) be deemed not to remain Outstanding; and

(B) in relation to the Notes, all the Notes issued other than:

- (a) those Notes which have been redeemed pursuant to the Trust Deed;
- (b) those Notes 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 Note Trustee or to the Principal Paying Agent in the manner provided in the Paying Agency Agreement (and where appropriate notice to that effect has been given to the relative Noteholders in accordance with Condition 15 (*Notices*)) and remain available for payment against presentation of the relevant Notes;
- (c) those Notes which have been purchased and cancelled in accordance with Conditions 5(g) (*Purchase*) and 5(h) (*Cancellation*);
- (d) those Notes which have become void or in respect of which claims have become prescribed, in each case under Condition 9 (*Prescription*);
- (e) those mutilated or defaced Notes which have been surrendered or cancelled and in respect of which replacements have been issued pursuant to Condition 10 (*Replacement of Notes, Coupons and Talons*);
- (f) (for the purpose only of ascertaining the nominal amount of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10 (*Replacement of Notes, Coupons and Talons*); and
- (g) any global bond to the extent that it shall have been exchanged for definitive bonds or another global bond pursuant to its provisions, the provisions of the Trust Deed and the Paying 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 Notes;

- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Condition 12 (*Meetings of Noteholders, Modification and Waiver: Substitution*), clause 11 (*Voting*) of the STID and Schedule 3 (*Provisions for Meetings of Noteholders*) to the Trust Deed;
- (iii) any discretion, power or authority (whether contained in the Trust Deed or vested by operation of law) which the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Notes; and
- (iv) the determination by the Note Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Notes,

those Notes which are for the time being held by a Connected Party (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 any Bonds, the Principal Amount Outstanding (or the Equivalent Amount);
- (b) in respect of any Notes, the Principal Amount Outstanding (or the Equivalent Amount);
- (c) in respect of any other Secured Liabilities owed to an Authorised Credit Provider, the outstanding principal amount (or the Equivalent Amount) of such debt together with any undrawn commitments of the relevant Authorised Credit Provider;
- (d) in respect of any Finance Lease (if any), 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 10.1 (*Notification of Outstanding Principal Amount of Qualifying Secured 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 cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow 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);
- (e) in respect of each Hedging Agreement (after the termination of a Standstill Period (other than due to a Standstill remedy)):
 - (i) if an early termination date has been designated in respect of the transaction or transactions arising under such Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the overriding provisions contained in the CTA and/or the STID, the Equivalent Amount of the amount due and payable as a result of such early termination; or
 - (ii) otherwise, zero; or
- (f) in respect of any other Secured Liabilities not referred to above, the Equivalent Amount of the outstanding principal amount of such Secured Liabilities on such date in accordance with the relevant Finance Documents, all as most recently certified or notified of the Security Trustee, pursuant to Clause 10.1 (*Notification of Outstanding Principal Amount of Qualifying Secured 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 and, in respect of any period, including future periods, for which the Retail Price Index has not yet been published, by reference to forecast rates of inflation consistent with the average monthly movement in the Retail Price Index over the previous 12 months for which the published Retail Price Index is available.

“**Parent**” means Affinity Water Capital Funds Limited, a company incorporated in England and Wales with limited liability, registered number 02630142.

“**Pari Passu Interest Rate Hedging Agreements**” means each Interest Rate Hedging Agreement designated as such in the relevant Accession Memorandum to the STID.

“**Participating Member State**” means any member state of the European Union that has the Euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union.

“**Party**” means, in relation to a Finance Document, a party to such Finance Document.

“**Paying Agency Agreement**” means the agreement relating to the Original Notes dated 13 July 2004 between, amongst others, the Issuer, the Note Trustee and the Principal Paying Agent, as amended and supplemented by a supplemental paying agency agreement dated on or about the date hereof between the same parties relating to the Further Notes and as from time to time further amended or supplemented.

“**Paying Agents**” means, in relation to the Notes, the institutions (including, where the context permits, the Principal Paying Agent) at their respective specified offices appointed as paying agents in relation to such Notes by the Issuer and the other Obligors pursuant to the Paying Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to the Notes.

“**Payment**” means, in respect of any Senior Lender Liabilities (or any other liabilities or obligations), a payment, prepayment, repayment, redemption, defeasance or discharge of those Senior Lender Liabilities (or other liabilities or obligations).

“**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 provisions relating to the order of priority of payments set out in paragraph 8.3 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) to the CTA as adjusted following the termination of a Standstill (other than pursuant to clause 16.4.1(c) (*Termination of Standstill*) of the STID) in accordance with paragraph 8.12 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) to the CTA.

“**Periodic Information**” means the following documents (or documents which include such information):

- (a) AWL’s annual charges scheme with details of tariffs;
- (b) a summary of AWL’s strategic business plan at each Periodic Review;
- (c) AWL’s current Procurement Plan (if any);
- (d) AWL’s annual drinking water quality report;
- (e) AWL’s annual environmental report;
- (f) AWL’s annual conservation and access report; and
- (g) such other material periodic information compiled by AWL for Ofwat.

“**Periodic Review**” means the periodic review of K as provided for in Instrument of Appointment Condition B.

“**Periodic Review Effective Date**” means the date with effect from which the new K 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 Note**” means a global note in the form or substantially in the form set out in Part B (*Form of Permanent Global Note*) of Schedule 1 to the Trust Deed issued by the Issuer in exchange for the whole or part of any Temporary Global Note issued in respect of such Notes.

“**Permitted Acquisition**” means any of the following carried out by AWL:

- (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 AWL are necessary or desirable for the efficient operation of its Business or in accordance with the Finance Leases or the Existing 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;
- (d) all contracts entered into by AWL from time to time in relation to supplies of electricity, gas or water;
- (e) an acquisition of 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;
- (f) an acquisition (including of any shares in a company) made in connection with a Permitted Joint Venture;
- (g) the establishment or acquisition of a Permitted Leasing Subsidiary and/or a Permitted Additional Issuer Subsidiary;
- (h) (save as provided in paragraph 2 (*No Debt Repurchase*) of Part 2 (*Trigger Event Consequences*) of Schedule 5 (*CTA Trigger Events*) of the CTA) the acquisition of any Financial Indebtedness of the Financing Group (including the Bonds and the Notes) provided that any such acquisition is made in good faith for bona fide commercial purposes;
- (i) the acquisition of AWSS (including of any shares in AWSS) or all or part of the business of AWSS or any corporate amalgamation, demerger, merger, consolidation or reconstruction involving AWL and AWSS;
- (j) a Permitted Boundary Change; and
- (k) an acquisition made with the consent of the Security Trustee,

in each case to the extent that such acquisition would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

“**Permitted Additional Issuer Subsidiary**” means a Subsidiary established by AWL for the purposes of issuing debt securities, provided that on or prior to the date of establishment, the requirements set out in the definition of “**Permitted Subsidiary**” have been complied with.

“**Permitted Book Debt Disposal**” means the disposal of book debts in each financial year with a nominal value of up to the greater of:

- (a) 0.1 per cent. of RCV; or
- (b) £1,000,000 (indexed),

(or a greater amount with the written consent of the Security Trustee) by AWL on arm’s length terms to any person other than an Affiliate where:

- (i) such book debts are sold to a person or persons whose business is the recovery of debts;
- (ii) AWL has made a prudent provision in its accounts against the non-recoverability of such debts;
- (iii) 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 AWL has expired; and
- (iv) the AWL Business Plan is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.

“**Permitted Boundary Change**” means any change to the licensed areas of AWL under the Instrument of Appointment which (individually or taken together) result in:

- (a) a net increase of less than or equal to the greater of (i) 5 per cent. of RCV; or (ii) £50,000,000 at the time of such change; or
- (b) a net decrease of less than or equal to the greater of (i) 2 per cent. of RCV; or (ii) £20,000,000 at the time of such change,

in each case, in any Periodic Review Period.

“**Permitted Disposal**” means any disposal of physical or financial assets made by AWL (and, in the case of paragraph (o), any Permitted Leasing Subsidiary) 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 to provide a benefit for 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 or to be leased under a Finance Lease or an Existing Finance Lease;
- (d) would not result in the Senior RAR, calculated for the most recent Calculation Date (adjusted on a pro forma basis to take into account the proposed disposal), being more than 0.90:1;
- (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 AWL, are not necessary or desirable for the efficient operation of its Business and which does not cause a Trigger Event under paragraph 1 (*Financial Ratios*), Part 1 (*Trigger Events*) of Schedule 5 (*CTA Trigger Events*) to the CTA;
- (f) is made pursuant to an Outsourcing Agreement complying with Paragraph 25 (Outsourcing Policy) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA;
- (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 or as otherwise approved by Ofwat;

- (i) is a disposal, surrender or allocation of tax losses or other benefit or interest pursuant to a Permitted Tax Loss Transaction;
- (j) is the disposal of assets owned by AWL 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 AWL (or which would be received by AWL 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 twelve month period does not exceed the greater of (x) 2.5 per cent. of RCV (or its equivalent) or (y) £25,000,000 (indexed); and (ii) the immediately preceding five year period does not exceed the greater of (x) 10 per cent. of RCV (or its equivalent) or (y) £100,000,000 (indexed);
- (l) is a disposal of assets to a partnership or a Permitted Joint Venture made on arm's lengths terms entered into for bona fide commercial purposes in furtherance of AWL's statutory and regulatory obligations;
- (m) is a disposal pursuant to any vehicle purchase or leasing arrangements;
- (n) is or relates to the winding-up, liquidation or dissolution of an Existing Dormant Subsidiary;
- (o) is a disposal of water assets recorded as fixed assets on the balance sheet of AWL to a Permitted Leasing Subsidiary by way of sale or by way of finance or operating lease arrangements and/or is a disposal pursuant to any lease of such assets granted by a Permitted Leasing Subsidiary to AWL or to another Permitted Leasing Subsidiary; or
- (p) is a Permitted Boundary Charge,

provided that in each case (i) such disposal does not cause any of the Trigger Event Ratio Levels to be breached and (ii) such disposal would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

"Permitted Emergency Action" means any remedial action taken by AWL during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of AWL (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which AWL considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 60 days or such longer period as is agreed by AWL and the Security Trustee.

"Permitted Existing Non-Appointed Business" means any Non-Appointed Business which is carried on by AWL at the Closing Date and:

- (a) which falls within the Permitted Non-Appointed Business Limits; and
- (b) in respect of which all material risks related thereto are insured in accordance with the provisions relating to insurance contained in the CTA; and
- (c) which does not give rise to any material actual or contingent liabilities for AWL that are not properly provided for in its Financial Statements.

"Permitted Existing Pension Scheme" means each of:

- (a) the Relevant Sections of the VUKPP;
- (b) any pension scheme transferred to or established by AWL in connection with any transfer of the business of AWSS to AWL (including any pension liabilities of AWSS); and

- (c) any successor pension schemes in relation to which AWL is a participating employer from time to time in accordance with the provisions of the Finance Documents, which may include any occupational pension scheme established by AWL in order to receive a transfer of rights and liabilities from the VUKPP and to provide future pension benefits.

“Permitted Financial Indebtedness” means:

- (a) Financial Indebtedness incurred under the Issuer/AWL Loan Agreements or the Programme Issuer/AWL Loan Agreements;
- (b) Financial Indebtedness incurred by one member of the Financing Group to another member of the Financing Group if the debtor in respect of that Financial Indebtedness is an Obligor (including if incurred under any Intra-Group Loans);
- (c) Financial Indebtedness incurred under any Finance Document as at the Closing Date;
- (d) Financial Indebtedness incurred under a Treasury Transaction provided (i) it is in compliance with the Hedging Policy; or (ii) it is a Treasury Transaction entered into by AWL in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;
- (e) any unsecured Financial Indebtedness provided that the aggregate amount of such Financial Indebtedness does not exceed the greater of (i) 1 per cent. of RCV; or (ii) £10,000,000 (indexed) at any time;
- (f) in respect of AWHL only, any Subordinated Debt entered into on or after the Closing Date;
- (g) Financial Indebtedness where only BACS or similar daylight-banking accommodation is provided;
- (h) the Ardleigh Arrangement and the Grafham Water Arrangement;
- (i) any Financial Indebtedness incurred under the Existing Finance Leases;
- (j) Financial Indebtedness incurred under any Liquidity Facility provided that the provider of such facility is a party to, or has acceded to, the CTA and the STID;
- (k) the Legacy Debenture Stock;
- (l) any amount due and payable but not yet paid arising in respect of the termination of a Treasury Transaction in accordance with its terms and the provisions of the Hedging Policy;
- (m) Permitted Further Financial Indebtedness; or
- (n) such further Financial Indebtedness incurred by any member of the Financing Group with the consent of the Security Trustee.

For the purposes of this definition and the definition of Permitted Further Financial Indebtedness 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 Further Financial Indebtedness” means such Financial Indebtedness incurred by the Issuer, the Programme Issuer or AWL that complies with the following conditions:

- (a) at the time of incurrence of that Financial Indebtedness, no (i) (in the case of Financial Indebtedness incurred for the purposes of refinancing existing Financial Indebtedness or to finance Capital Expenditure including rolling over maturing advances under existing Financial Indebtedness) Event of

Default or (ii) (in the case of any other Financial Indebtedness) Default, in each case is continuing or will arise as a result of the incurrence of such Financial Indebtedness;

- (b) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility, the provider of which is a party to, or has acceded to, the CTA and STID;
- (c) as a result of the incurrence of the Financial Indebtedness:
 - (i) none of AWL, the Issuer nor the Programme Issuer will be in breach of Paragraph 4 (*DSR Liquidity Facilities*) of Part 2 (*Financial Covenants*) of Schedule 4 (*Covenants*) of the CTA; and
 - (ii) 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 unless such better or additional entrenched rights are given to all Authorised Credit Providers of that class; and
 - (iii) the incurrence of the Financial Indebtedness does not cause a breach of the Hedging Policy;
- (d) the Financial Indebtedness which is Class A Debt ranks pari passu in all respects (but subject to the priorities set out in Paragraph 8.3 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) of the CTA) with all other Class A Debt and the Financial Indebtedness that is Class B Debt ranks pari passu in all respects (but subject to the priorities set out in Paragraph 8.3 of Schedule 10 (*Cash Management*) of the CTA) with all other Class B Debt;
- (e) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR for the most recent Calculation Date (taking into account the proposed incurrence of such debt) must be less than or equal to 0.90:1;
- (f) if such further Financial Indebtedness is Class A Debt then the Class A RAR for the most recent Calculation Date (taking into account the proposed incurrence of such debt) must be less than or equal to 0.75:1 and the Class A Adjusted ICR for each Test Period calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt) must be equal to or greater than 1.30:1;
- (g) if the incurrence of such Financial Indebtedness would cause the Senior RAR for each Test Date calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt and the incurrence of any other Permitted Further Financial Indebtedness following such Calculation Date) to exceed 67.5 per cent, AWL, the Issuer and the Programme Issuer shall ensure that the aggregate of (x) DSR Liquidity Facilities commitments in respect of Class A Debt; and (y) amounts standing to the credit of the Class A Debt Service Reserve Accounts of the Issuer, the Programme Issuer and AWL (including the value of any Authorised Investments funded from such amounts) is at least equal to the Class A Required Balance at the time of incurrence of such Financial Indebtedness; and
- (h) 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 the greater of (i) 15 per cent. of RCV; or (ii) 150,000,000 (indexed) or its equivalent.

“**Permitted Hedging Termination**” means the termination of a Hedging Agreement in accordance with the Hedging Agreement subject always to the provisions of Paragraph 1 (*General Principles*) of Schedule 7 (*Hedging Policy*) to the CTA.

“Permitted Joint Venture” means the financing, development, design, carrying out and management by or on behalf of AWL of:

- (a) the Ardleigh Arrangement and the Grafham Water Arrangement;
- (b) any new Joint Venture in relation to which the aggregate liabilities of AWL (when taken together with the liabilities of AWL under any other Permitted Joint Ventures) do not exceed the greater of (i) 0.5 per cent. of RCV; or (ii) £5,000,000 (indexed); or
- (c) any new Joint Venture to which the Security Trustee has consented (such consent not to be unreasonably withheld),

in each case, the operation by or on behalf of AWL of that Joint Venture being in accordance with 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) under a Finance Lease 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 AWL 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 Hedging Terminations, 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;
- (b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that AWL will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) an Acceleration of Liabilities (other than Permitted Hedging 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; and
- (c) *Voluntary Prepayment/Termination*: Pursuant to any provision of a Finance Lease whereby AWL is or will be entitled, to voluntarily terminate (and require payment of a termination sum), or prepay all or any part of the Rentals relating to the leasing of all or the relevant Equipment under such Finance Lease provided that (i) no Acceleration of Liabilities (other than Permitted Hedging 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 Leasing Subsidiary” means a Subsidiary established by AWL for the purposes of entering into sale and/or leasing arrangements with AWL in respect of water assets of AWL recorded on the balance sheet of AWL as fixed assets, provided that on or prior to the date of establishment, the requirements set out in the definition of Permitted Subsidiary have been complied with.

“Permitted Legacy Loan” means a loan dated on or around the Closing Date of up to £4,000,000 (indexed) under which Affinity Water Capital Funds is the lender and AWL is the borrower and is made for the purpose of financing (directly or indirectly) a Permitted Legacy Payment up to an aggregate amount not exceeding 4 per cent. of £4,000,000 (indexed) in any consecutive 12 month period.

“Permitted Legacy Payment” means any payment (whether by loan, repayment of a loan, payment of interest on a loan, dividend or otherwise) directly financing the payment of dividends to shareholders of Affinity Water East Limited and Affinity Water South East Limited (other than Affinity Water Capital Funds

Limited) not exceeding amounts equal to the interest due and payable on the Permitted Legacy Loan or if the Permitted Legacy Loan has been repaid, refinanced or restructured, equivalent amounts not to exceed such interest payments as would have been payable if the Permitted Legacy Loan had remained outstanding on its original terms).

“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 AWL 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 Ofwat; and (iii) falls within the Permitted Non-Appointed Business Limits;
- (b) all material risks related thereto are insured in accordance with the provisions of the CTA; and
- (c) such business does not give rise to any material actual or contingent liabilities for AWL that are not or would not be 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 Income” means income received by AWL pursuant to its Permitted Non-Appointed Business.

“Permitted Non-Appointed Business Limits” means, in respect of Permitted Non-Appointed Business (i) the average of Non-Appointed Expenses during the current Test Period and, if applicable, the immediately two preceding Test Periods does not exceed 5 per cent. of Cash Expenses of AWL during such Test Periods; and (ii) the aggregate balance sheet liabilities of the Financing Group in respect of Non-Appointed Business do not exceed the greater of (i) 1 per cent. of RCV; or (ii) £10,000,000 (indexed) at any time.

“Permitted Payments” means the application of monies 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 Closing Date;
- (b) payments and other actions by any or all Obligors or other entities to enable AWL to pay certain amounts outstanding under the Senior Term Facilities and related documentation and the discharge of the security created under such documents;
- (c) payments and other actions by any or all Obligors or other entities to enable AWL to pay certain fees in relation to the Existing Hedging Transactions or to terminate such Existing Hedging Transactions;
- (d) any other payments listed in writing by AWL as at the Closing Date and signed by way of approval by the Security Trustee.

“Permitted Security Interest” means any Security Interest:

- (a) created by an Obligor which is:
 - (i) a Security Interest created under the Security Documents or contemplated by the Common Documents;

- (ii) any Security Interest specified in Schedule 10 (*Cash Management*) to the CTA, if the principal amount thereby secured is not increased;
 - (iii) a Security Interest comprising a netting or set off arrangement entered into by a member of the Financing Group in the ordinary course of its banking arrangements;
 - (iv) 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;
 - (v) 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 Financing Group in good faith and with a reasonable prospect of success;
 - (vi) 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 Financing Group by appropriate procedures and with a reasonable prospect of success;
- (b) created by AWL, the Issuer or the Programme Issuer which is:
- (i) a Security Interest comprising a netting or set off arrangement entered into under any Hedging Agreement 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 Hedging Agreement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);
 - (ii) 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 Financing Group becoming aware that the amount owing in respect of such lien has become due;
 - (iii) 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;
 - (iv) 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;
 - (v) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;
- (c) created by AWL which is:
- (i) a Security Interest over or affecting any asset acquired on arm's length terms after the Closing Date and subject to which such asset is acquired, if:
 - (A) such Security Interest was not created in contemplation of the acquisition of such asset;
 - (B) 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 Financing Group; and

- (C) unless such Security Interest falls within any of Paragraphs (v) to (ix) below such Security Interest is removed or discharged within 6 months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;
- (ii) 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;
- (iii) a Security Interest arising under or contemplated by any Finance Leases or Existing 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;
- (iv) a right of set off existing in the ordinary course of trading activities between AWL and its suppliers or customers (including, but not limited to any existing or future bulk water supply contracts, or any existing or future gas or electricity supply contracts);
- (v) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;
- (vi) any retention of title arrangements entered into by AWL in the ordinary course of business;
- (vii) a Security Interest pursuant to any purchase or leasing of vehicles by AWL;
- (viii) the Legacy Chertsey Security; or
- (ix) 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 the greater of (i) 0.25 per cent. of RCV; or (ii) £2,500,000 (indexed) (or its Equivalent Amount),

to the extent and for so long, in each case, as the creation or existence of such 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**” has the meaning given to such term in clause 14.9 (*Permitted Share Pledge Acceleration*) of the STID.

“**Permitted Subsidiary**” means:

- (a) the Issuer, the Programme Issuer and (for so long as they remain dormant companies) the Existing Dormant Subsidiaries; and
- (b) any other Subsidiary of AWL from time to time (including a Permitted Additional Issuer Subsidiary) which is:
 - (i) established by AWL; or
 - (ii) acquired by AWL pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee prior to the date of such Permitted Acquisition,

provided that, in each case, on or prior to such establishment or acquisition such Permitted Subsidiary has acceded to the CTA, the STID, the MDA, the Security Agreement, the Bond Trust Deed, the Dealership Agreement, the Agency Agreement, the Account Bank Agreement and the Tax Deed of Covenant as an Obligor in accordance with the provisions of the STID and has satisfied the conditions to such accession as set out in the STID.

“Permitted Tax Loss Transaction” means any surrender of tax losses or agreement relating to a Tax benefit or relief (including, for the avoidance of doubt, an election under section 171A or 179A of the Taxation of Chargeable Gains Act 1992 and an exemption of financing income pursuant to Part 7 of the Taxation (International and Other Provisions) Act 2010) or any other agreement relating to Tax (including, for the avoidance of doubt, the payment of any balancing payment pursuant to and in accordance with the provisions of Chapter 6 of Part 4 of the Taxation (International and Other Provisions) Act 2010) between:

- (a) two Obligor where neither is the Programme Issuer; or
- (b) an Obligor other than the Programme Issuer and any other member of the Affinity Group (not being an Obligor),

in either case in accordance with the provisions set out in the Tax Deed of Covenant.

“Permitted Volume Trading Arrangements” means contracts entered into by any member of the Affinity Group or any Associate thereof (which, in each case, is not a member of the Financing Group) with suppliers for the supply of goods and services to the 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 Affinity Group or Associate for any Financial Indebtedness by way of amounts payable by such member of the Affinity 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.

“pounds” means the lawful currency of the United Kingdom.

“Preceding Business Day Convention” has the meaning given to it in Condition 6(e) (*Business Day Convention*).

“Pre-Test Period” means the period from the Closing Date up to 31 March 2013.

“Price Control Change” means the introduction of a price control (or series of price controls) for the Appointed Business or any part thereof.

“Principal Amount Outstanding” means:

- (a) in relation to any Bond, Class and/or Sub-Class of any Bond, the original face value thereof (as adjusted in accordance with the applicable terms and conditions, including in respect of any index-linked or disenfranchisement provisions contained therein) less any repayment of principal made to the holder(s) thereof in respect of such Bond, Class and/or Sub-Class of any Bond; and
- (b) in relation to any Note, the original face value thereof (as adjusted in accordance with the applicable terms and conditions, including in respect of any index-linked or disenfranchisement provisions contained therein) less any repayment of principal made to the holder(s) thereof in respect of such Note.

“Principal Paying Agent” means Deutsche Bank AG, London Branch as principal paying agent under the Paying 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 14.6 (*Receipts Held in Trust*) of the STID) relating to the Security 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 AWL in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and consulting with the Security Trustee.

“**Professional Securities Market**” or “**PSM**” means the London Stock Exchange’s Professional Securities Market which is not a regulated market under the Market in Financial Instruments Directive.

“**Programme**” means the £2,500,000,000 guaranteed bond programme established by the Programme Issuer admitted to the Official List and to the London Stock Exchange.

“**Programme Issuer**” means Affinity Water Programme Finance Limited, an exempted company incorporated in the Cayman Islands with limited liability, registered number 274647.

“**Programme Issuer/AWL Loan Agreement**” means any loan agreement entered into between the Programme Issuer as lender and AWL as borrower.

“**Programme Issuer DSR Proportion**” means a proportion of the Class A Required Balance attributable to the Programme Issuer in such allocations as AWL shall determine.

“**Programme Paying Agents**” means, in relation to all or any Class and/or Sub-Class of the Bonds, the several institutions (including, where the context permits, the Programme Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Programme Issuer and the other 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 Classes and/or Sub-Classes of the Bonds.

“**Programme Principal Paying Agent**” means Deutsche Bank AG, London Branch under the Agency Agreement, or its successors thereto.

“**Projected Operating Expenditure**” means, at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.

“**Proposed Payment Amount**” has the meaning given to it in Paragraph 37.1.2(c)(ii) (*Restricted Payments*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA.

“**Prospectus**” means any prospectus prepared by or on behalf of, and approved by, the Programme Issuer in connection with the establishment of the Programme and/or the issue of the Bonds or any Drawdown Prospectus, information memorandum or prospectus prepared by or on behalf of and approved by the Programme Issuer in connection with the general syndication in the interbank market of any Authorised Credit Facility.

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council, as amended.

“**Protected Land**” means (as the term is defined in the WIA), 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 Section 219 of the WIA), was held by that company at any time during the financial year ended 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
- (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,

as such definition may be amended by statute or law.

“**PTP Amount**” means an amount to be specified in the MDA which will be in respect of any finance charges payable in respect of the Pre-Test Period.

“**Public Procurement Rules**” means public procurement rules of the United Kingdom (including the Utilities Contracts Regulations SI 2006/06 (as amended)) and of the European Communities (including Directive 2004/17/EC as amended) affecting the water 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.

“**Qualifying Bondholder**” means, for so long as Qualifying Class A Debt remains outstanding, the holders of each Class and/or Sub-Class of the Class A Bonds or, following repayment in full of the Qualifying Class A Debt and for so long as Qualifying Class B Debt remains outstanding, the holders of each Class and/or Sub-Class of Class B Bonds.

“**Qualifying Class A Creditor**” means the following Class A Creditors:

- (a) in respect of a Class and/or Sub-Class of Class A Bonds, the Bondholders;
- (b) the Noteholders;
- (c) the Senior Term Facility Providers;
- (d) the Capital Expenditure Facility Providers;
- (e) the Working Capital Facility Providers;
- (f) in respect of any other Authorised Credit Facility for Class A Debt, the Authorised Credit Providers under such Authorised Credit Facility; and
- (g) in respect of a Finance Lease designated as Class A Debt, the Finance Lessor under such Finance Lease,

provided that no Liquidity Facility Provider or Hedging Counterparty shall be a Qualifying Class A Creditor.

“**Qualifying Class A Debt**” means the aggregate Outstanding Principal Amount of Class A Debt provided by a Qualifying Class A Creditor.

“**Qualifying Class B Creditor**” means the following Class B Creditors:

- (a) in respect of a Sub-Class of Class B Bonds, the relevant Bondholders;
- (b) in respect of any other Authorised Credit Facility for Class B Debt, the Authorised Credit Providers under such Authorised Credit Facility; and

- (c) in respect of a Finance Lease designated as Class B Debt, the Finance Lessor under such Finance Lease,

provided that no Liquidity Facility Provider or Hedging Counterparty shall be a Qualifying Class B Creditor.

“**Qualifying Class B Debt**” means the aggregate Outstanding Principal Amount of Class B Debt provided by a Qualifying Class B Creditor.

“**Qualifying Debt**” means the aggregate of the Qualifying Class A Debt or following the repayment in full of the Qualifying Class A Debt, the Qualifying Class B Debt.

“**Qualifying Existing Bondholders**” means, for so long as Qualifying Class A Debt remains outstanding, the holders of the Existing Issuer Bonds.

“**Qualifying Lender**” means a lender under any Authorised Credit Facility, which is beneficially entitled to interest under an Advance payable to that lender and is:

- (a) a UK Lender, or
- (b) a Treaty Lender.

“**Qualifying Secured Creditor**” means a Qualifying Class A Creditor or, following the repayment in full of the Qualifying Class A Debt, a Qualifying Class B Creditor and “**Qualifying Secured Creditors**” means the Qualifying Class A Creditors or, following the repayment in full of the Qualifying Class A Debt, the Qualifying Class B Creditors.

“**Qualifying Secured Debt**” means the aggregate of the Qualifying Class A Debt and the Qualifying Class B Debt.

“**Quorum Requirement**” has the meaning given to it in the STID.

“**Rating Agencies**” means Moody’s, S&P and Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) and any further or replacement rating agency appointed by the Issuer or the Programme Issuer with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors in accordance with the terms of the STID) pursuant to a STID Proposal to provide a credit rating or ratings for the Class A Debt and the Class B 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 Class A Bonds and the Notes that, in respect of any matter where such confirmation is required, the credit rating of the Class A Bonds and the Notes is BBB by S&P, Baa2 by Moody’s and (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) BBB by Fitch or above.

“**RCV**” means Base RCV including, if relevant and without duplication, Replacement Value, as calculated in accordance with the following definitions and principles:

- (i) “**Base RCV**” means, in relation to any date, the sum of the regulatory capital value of assets governed by a RCV Price Control Mechanism within and outside wholesale price control for such date as last determined by Ofwat (excluding any draft determination of the regulatory capital value by Ofwat) as reflected at the most recent Definitive Notification. The Base RCV shall be adjusted for Out-turn Inflation.
- (ii) “**Replacement Value**” means, in relation to any date, the sum of all replacement values determined by AWL in accordance with the methodology agreed by the Security Trustee (acting on the instruction of

the Majority Creditors) in relation to assets that support services and activities that are governed by a Different Price Control Mechanism. At the Closing Date the Replacement Value shall be nil.

- (iii) “**RCV Price Control Mechanism**” means a price control mechanism based on regulatory capital value.
- (iv) “**Different Price Control Mechanism**” means any price control mechanism developed and implemented in the future by Ofwat other than the RCV Price Control Mechanism.
- (v) “**Definitive Notification**” means a Periodic Review, IDOK or as stated in the most recent annual statement of regulatory capital values issued by Ofwat to all regulatory directors of water and sewerage companies and water only companies the annual RCV update (the “**Annual RCV Update**”) or any other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review, IDOK or Annual RCV Update (interpolated as necessary and adjusted as appropriate for Out-turn Inflation). For the avoidance of doubt, any draft determination by Ofwat shall not constitute a Definitive Notification.

“**Recognised Ofwat Mechanism**” means any of (i) logging up of RCV, where Ofwat has approved the relevant Capital Expenditure and the Reporter has reviewed and validated the cost of such Capital Expenditure (including on an intra-AMP Period basis); or (ii) an IDOK, where a “**Relevant Change of Circumstance**” (as defined in Part IV of Instrument of Appointment Condition B) of the Instrument of Appointment has, in the reasonable opinion of AWL, arisen or (iii) any other similar mechanism as agreed from time to time between Ofwat and AWL.

“**Recurring Fees**” means any scheduled fees and commissions payable under an Authorised Credit Facility which are calculated by reference to the costs and expenses of the relevant Authorised Credit Provider properly incurred in the provision and maintenance of such Authorised Credit Facility (excluding upfront fees and commissions and renewal fees and commissions).

“**Redemption Amount**” means, the amount provided under Condition 5 (*Redemption and Purchase*).

“**Reference Bank**” has the meaning given to that term in the relevant Finance Document, provided that if no Reference Bank is specified in the relevant Finance Document, the Reference Bank shall be Barclays Bank PLC or any other two reference banks.

“**Reference Date**” has the meaning given to it in Condition 5 (*Redemption and Purchase*).

“**Registrar**” means Deutsche Bank Luxembourg S.A. as 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 in the Securities Act.

“**Regulatory Information**” means the regulatory accounts AWL is required to submit to Ofwat in June of each year.

“**Relevant Authorisation**” means all consents, licences, authorisations and approvals (including any such as may be required pursuant to the Instrument of Appointment):

- (a) necessary to enable the consummation of the transactions constituted by the Finance Documents to which AWL is a party;

- (b) (including the Instrument of Appointment) necessary for the conduct of the business of AWL substantially as conducted at the date hereof and for the leasing of the Equipment; and
- (c) any other consent, licence or authorisation required in accordance with the normal course of business or good industry practice,

and in each case, which if not obtained or complied with or which if revoked or terminated would have a Material Adverse Effect.

“**Relevant Breach**” means any breach of the covenants contained in Schedule 4 (*Covenants*) of the Common Terms Agreement, the occurrence of any Trigger Event or the occurrence of any Event of Default.

“**Relevant Change of Circumstances**” has the meaning given to it in the licence of each Regulated Company.

“**Relevant Currency**” means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated.

“**Relevant Date**” has the meaning set out in Condition 18 (*Definitions*).

“**Relevant Inflation Date**” shall have the meaning given to it in Paragraph 11 (*Financial Indebtedness*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA.

“**Relevant Member State**” means each Member State of the European Economic Area which has implemented the Prospectus Directive.

“**Relevant Persons**” means persons to whom the Listing Particulars are being distributed, and directed at, who (i) are outside the United Kingdom or (ii) are persons who have professional experience in matters relating to investments falling within 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.

“**Relevant Sections**” means the following sections of the VUKPP:

- (a) the Veolia Water UK PLC Final Salary Division;
- (b) the Veolia Water East Ltd Final Salary Division;
- (c) the Veolia Water Southeast Ltd Final Salary Division;
- (d) the Veolia Water Central Ltd Final Salary Division; and
- (e) the Veolia Water UK PLC Money Purchase Division.

“**Relevant Termination Date**” shall have the meaning given to it in Paragraph 11 (*Financial Indebtedness*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA.

“**Remedial Plan**” means any remedial plan agreed by AWL and the Security Trustee under Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) to the CTA.

“**Remedy Period**” means:

- (a) in relation to each Obligor, unless otherwise set out under (b) below in relation to AWHL, for any failure duly to perform or comply with any of the:
 - (i) 20 Day Obligations, the period expiring 20 days after the Remedy Start Date;
 - (ii) 60 Day Obligations, the period expiring 60 days after the Remedy Start Date (subject to paragraph (v) below);

- (iii) 90 Day Obligations, the period expiring 90 days after the Remedy Start Date (subject to paragraph (v) below;
- (iv) 180 Day Obligations, the period expiring 180 days after the Remedy Start Date;
- (v) for:
 - (A) any other failure duly to perform or comply with any other obligation (including, for the avoidance of doubt, Paragraph 28 (*Credit Rating*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA; and
 - (B) any failure duly to perform or comply with any 60 Day Obligation or 90 Day Obligation where such failure has a Material Adverse Effect (notwithstanding sub-paragraphs (ii) and (iii) above),

the period expiring 30 Business Days after the Remedy Start Date; and

in relation to AWHL, any failure duly to perform or comply with any of the obligations contained in:

- (i) Paragraph 1 (*Restricted Business of AWHL*);
- (ii) Paragraph 10 (*Disposals*);
- (iii) Paragraph 12 (*Mergers*);
- (iv) Paragraph 17 (*Cash Management*);
- (v) Paragraph 20 (*Treasury Transactions*);
- (vi) Paragraph 22 (*Share Capital*);
- (vii) Paragraph 24 (*Structure of the Financing Group*);
- (viii) Paragraph 27 (*Non-executive directors*);
- (ix) Paragraph 29 (*Arm's length terms*); and
- (x) Paragraph 34 (*Litigation*),

in each case of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the CTA, the period expiring seven days after the Remedy Start Date.

For the purposes of this definition:

- (a) “**20 Day Obligations**” means:
 - (i) Paragraph 11 (*Financial Indebtedness*);
 - (ii) Paragraph 13 (*Acquisitions and Investments*); and
 - (iii) Paragraph 16 (*Loans and Credit*),

in each case of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the CTA.

- (b) “**60 Day Obligations**” means:
 - (i) Paragraph 1 (*Financial Statements*);
 - (ii) Paragraph 4 (*Auditors' Review*);
 - (iii) Paragraph 5 (*Investor Report*); and

(iv) Paragraphs 7(a), (d) or (e) (*Information Miscellaneous*),
in each case of Part 1 (*Information Covenants*) of Schedule 4 (*Covenants*) of the CTA; and

(i) Paragraph 7 (*Compliance with laws and Instrument of Appointment*);

(ii) Paragraph 8 (*Ranking of Secured Claims*);

(iii) Paragraph 20 (*Treasury Transactions*);

(iv) Paragraph 23 (*Intellectual Property*);

(v) Paragraph 29 (*Arm's Length Terms*);

(vi) Paragraph 31 (*Accounting*); and

(vii) Paragraph 32 (*Further Assurance*),

in each case of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the CTA.

(c) “**90 Day Obligations**” means:

(i) Paragraph 6(a)(vii) (*AWL Information*); and

(ii) (prior to a Trigger Event) Paragraph 49 (*Assistance with Syndication*),

in each case of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the CTA.

(d) “**120 Day Obligations**” means:

(i) Paragraph 5(b) (*Operation of Business*); and

(ii) Paragraph 50 (*Pension Arrangements*),

in each case of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) of the CTA.

“**Remedy Start Date**” means the earlier to occur of (i) the date on which the Security Trustee has given notice of the relevant non-compliance to AWL; and (ii) the date on which AWL becomes aware of the non-compliance.

“**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 consecutive Rental Payment Dates under such Finance Lease.

“**Repeated Representations**” means:

(a) all the representations set out in Schedule 2 (*General Representations*) to the CTA other than Paragraphs 6 (*Validity and admissibility in evidence*), 7 (*Authorisations*), 11 (*No deduction or withholding*), 15 (*Ownership*), 16 (*Status of Security*), 22 (*Taxation*), 24 (*Ranking of Secured Claims*), 25 (*Negative Pledge*), 26 (*Financial Indebtedness*), 27 (*Loans and Credit*), 28 (*Treasury Transactions*), 29 (*Arm's length terms*) and 30 (*Bonds and/or Existing Issuer Bonds Valid and Binding*); and

(b) the representations set out in Paragraphs 1 (*Intellectual Property*) and 3 (*Special Administration*) of Schedule 3 (*AWL Representations*) to the CTA.

“**Reporter**” means the reporter appointed by AWL in accordance with Instrument of Appointment Conditions B and C.

“**Reporting Accountants**” means PricewaterhouseCoopers LLP or such other firm of independent accountants of international repute nominated by AWL and agreed by the Security Trustee.

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**Representative Amount**” means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms or Drawdown Prospectus as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“**Request**” means a request for utilisation of any Authorised Credit Facility.

“**Required Balance**” means, on any Payment Date, the aggregate of the Class A Required Balance and the Class B Required Balance.

“**Required Sterling Amount**” has the meaning given to it in Paragraph 8.6.1 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) to the CTA.

“**Reservations**” means the qualifications as to law but not as to facts to the legal opinions which were delivered on or before the Closing Date and which qualify certain representations, covenants and events of default contained in the CTA.

“**Reserved Matters**” means the Secured Creditors Reserved Matters, the Security Trustee Reserved Matters, the Bond Trustee Reserved Matters, the Note Trustee Reserved Matters (referred to as the “Existing Issuer Bond Trustee Reserved Matters” in the STID) and the Hedging Counterparty Reserved Matters provided by the terms of clause 8.16 (*Procedure for Reserved Matters*) of the STID and Schedule 3 (*Reserved Matters*) to the STID.

“**Restricted Chargors**” means AWL, the Issuer, the Programme Issuer and any other entity which accedes to the Security Agreement pursuant to clause 22.3 (*Further Subsidiaries*) of the Security Agreement that is restricted by its regulatory or statutory obligations from providing guarantees and/or security.

“**Restricted Payment**” means any Distribution, Deferral of K, or any payment under the Subordinated Debt other than:

- (a) any payment under any Authorised Credit Facility in accordance with the provisions of the CTA and the STID;
- (b) any payment under any Shared Services Agreement and/or Transitional Agreement;
- (c) a Distribution or payment made under a Permitted Tax Loss Transaction;
- (d) any Permitted Post-Closing Event;
- (e) any Intra-Group Debt Service Distribution;
- (f) any Distribution or any payment under Subordinated Debt required to finance a Permitted Legacy Payment;
- (g) any Distribution or any payment in connection with the Ardleigh Arrangement or the Grafham Water Arrangement; or
- (h) any Distribution or any payment to Affinity Water Pension Trustees Limited or its successors in connection with a Permitted Existing Pension Scheme.

“**Restricted Payment Condition**” means each of the conditions in paragraph 37 (*Restricted Payments*) of Part 3 (*General Covenants*) of Schedule 4 (*Covenants*) to the CTA which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer, the Programme Issuer or AWL.

“**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.

“**Retail Price Index**” or “**RPI**” means the all-items retail prices index for the United Kingdom published by the Office for National Statistics (January 1987 = 100) or at any future date (except in the case of an RPI Linked Hedging Agreement), such other index of retail prices as may have then replaced it for the purposes of Ofwat’s determination of price limits for water services or (in the case of an RPI Linked Hedging Agreement) such other index of retail prices as specified in such RPI Linked Hedging Agreement.

“**Revolving Credit Facility**” means the Working Capital Facility and any other revolving credit facility entered into from time to time by AWL to fund AWL’s working capital requirements.

“**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, save that, where the test comes to be calculated at a time when information is not available in respect of any forward looking Test Period (as a result of Ofwat’s determination of price limits for a Periodic Review not having been published in draft or final form) then such Rolling Average Period will be the three 12 month periods which run consecutively backwards and/or forwards from such Calculation Date for which such information is available for the last Test Period in such calculation.

“**RPI Linked Hedging Agreement**” means a Hedging Agreement with a Hedging Counterparty in respect of one or more Treasury Transactions to hedge payments to be made by the Issuer, the Programme Issuer or, as the case may be, AWL by reference to RPI.

“**RPI Linked Hedging Transaction**” means a Hedging Transaction with a Hedging Counterparty to Hedging payments to be made by the Issuer, the Programme Issuer or, as the case may be, AWL by reference to RPI.

“**S&P**” means Standard & Poor’s Ratings Services or any successor to the rating agency business of S&P.

“**Scheduled Debt Service**” has the meaning given to it in Paragraph 8.6.1 (*Debt Service Payment Account*) of Schedule 10 (*Cash Management*) to the CTA.

“**Secretary of State for the Environment**” means Her Majesty’s Secretary of State for Environment, Food and Rural Affairs.

“**Section 13 Notice**” means section 13 of the Water Industry Act 1991.

“**Secured Creditor**” means each of:

- (a) the Security Trustee (in its own capacity and on behalf of the other Secured Creditors);
- (b) the Bond Trustee (in its own capacity and on behalf of the Bondholders);
- (c) the Note Trustee (in its own capacity and on behalf of the Noteholders);
- (d) the Bondholders;
- (e) the Noteholders;
- (f) the Finance Lessors;
- (g) the Hedging Counterparties;

- (h) the Issuer;
- (i) the Programme Issuer;
- (j) the Account Bank;
- (k) the Liquidity Facility Agents;
- (l) each Facility Agent under each Authorised Credit Facility;
- (m) the Senior Term Facility Providers;
- (n) the Capital Expenditure Facility Providers;
- (o) the Working Capital Facility Providers;
- (p) the Liquidity Facility Providers;
- (q) each other Authorised Credit Provider;
- (r) the Cash Manager (other than where the Cash Manager is AWL);
- (s) the Standstill Cash Manager;
- (t) each Agent; and
- (u) any other Additional Secured Creditors.

“**Secured Creditor Representative**” means:

- (a) for each Qualifying Class A Creditor or Qualifying Class B Creditor, the relevant DIG Representative of such Secured Creditor;
- (b) for each Hedging Counterparty (whether or not a Qualifying Class A Creditor or a Qualifying Class B Creditor), the relevant Hedging Counterparty;
- (c) for each of the Issuer and the Programme Issuer in respect of the Issuer/AWL Loan Agreements and the Programme Issuer/AWL Loan Agreements respectively, the Security Trustee (acting on behalf of the Issuer and the Programme Issuer, respectively);
- (d) for each Liquidity Facility Provider, the Facility Agent under the relevant Liquidity Facility Agreement; and
- (e) for each other Secured Creditor, the relevant Secured Creditor.

“**Secured Creditor Reserved Matters**” means those matters set out in Part A (*Reserved Matters of Secured Creditors and/or Secured Creditor Representatives*) of Schedule 3 (*Reserved Matters*) to the STID.

“**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 Closing Date.

“**Security Assets**” means all property, assets, rights and undertakings the subject of the security created by the Obligors on the Closing Date.

“**Security Documents**” means:

- (a) the Security Agreement;
- (b) the STID, any deed of accession thereto and any deed supplemental 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.

“**Security Trustee Reserved Matters**” means those matters set out in Part B (*Security Trustee Reserved Matters*) of Schedule 3 (*Reserved Matters*) to the STID.

“**self-lay**” means the method of introducing competition by facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work.

“**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 Financial Indebtedness ranking in priority to Subordinated Debt of any member of the Financing Group.

“**Senior Debt Interest**” means, in relation to any Test Period, without double counting, interest on Financial Indebtedness designated as Senior Debt (including interest accreted by indexation of interest on any Indexed Bonds that constitute Senior Debt but excluding accretions by indexation to the principal on any Indexed Bonds designated as Senior Debt and accretions by indexation to the notional amount under any RPI Linked Hedging Agreement designated as Senior Debt),

plus

- (a) Recurring Fees in respect of Financial Indebtedness designated as Senior Debt;
- (b) Net cash flow under all Interest Rate Hedging Agreements (excluding accretion by indexation to the notional amount);
- (c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid, or payable (as the case may be) designated as Senior Debt; and
- (d) interest in respect of unsecured Financial Indebtedness,

excluding

- (A) all fees other than Recurring Fees;
- (B) amortisation of the costs of issue of such Senior Debt;
- (C) any Permitted Legacy Payment;

less

all interest received or, receivable (as the case may be), by any member of the Financing Group from a third party during such period (excluding any interest received or receivable by the Obligor under any Intra-Group Loan or any loan or other forms of Financial Indebtedness to Affiliates but including any interest received from any Senior Debt held by an Obligor); provided that in each case that in respect of a future Test Period (or part of a Test Period) such amounts shall be based on anticipated amounts as shown in the AWL Business Plan.

“**Senior Facilities Agent**” means The Royal Bank of Scotland plc or any other entity appointed as facility agent under the Senior Facilities Agreement.

“**Senior Facilities Agreement**” means the senior facilities agreement dated 22 June 2012 (as subsequently amended and restated from time to time including on or immediately prior to the Closing Date) originally between, among others, Affinity Acquisitions Limited (formerly Rift Acquisitions Limited) as original borrower and original guarantor (novated to AWL on the Closing Date) and HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc as mandated lead arrangers.

“**Senior Facilities Agreement Providers**” means certain financial institutions assembled from time to time by the Affinity Group.

“**Senior Facilities Arrangers**” means HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc.

“**Senior Lender Debtors**” means each Obligor (under and as defined in the Senior Facilities Agreement).

“**Senior Lender Liabilities**” means all present and future liabilities and obligations at any time owed by the Senior Lender Debtors to the Senior Lenders under the SFA Finance Documents, both actual and contingent and whether incurred solely or jointly or in any other capacity together with any of the following matters relating to or arising in respect of those liabilities and obligations:

- (a) any refinancing, novation, deferral or extension;
- (b) any claim for breach of representation, warranty or undertaking or on an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any other liability or obligation falling within this definition;
- (c) any claim for damages or restitution; and
- (d) any claim as a result of any recovery by any Senior Lender Debtor of a Payment on the grounds of preference or otherwise,

and any amounts which would be included in any of the above but for any discharge, non provability, unenforceability or non allowance of those amounts in any insolvency or other proceedings.

“**Senior Lenders**” means each Lender and Issuing Bank (under and as defined in the Senior Facilities Agreement).

“**Senior Net Indebtedness**” means, as at any date, the aggregate of the Financing Group’s nominal Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date under and in connection with any Senior Debt together with all indexation accrued on such liabilities which are indexed:

- (a) including:
 - (i) accretions to the principal of any Indexed Bonds that constitute Senior Debt and accretions by indexation to the notional amount under any RPI Linked Hedging Agreement; and
 - (ii) the nominal amount of any Financial Indebtedness pursuant to paragraph (e) of the definition of Permitted Financial Indebtedness (such paragraph in relation to unsecured Financial Indebtedness) and paragraph (k) (*Legacy Debenture Stock*) of the definition of Permitted Financial Indebtedness; and
- (b) excluding:
 - (i) any uncrystallised mark to market amount relating to any Hedging Agreement; (other than Hedging Agreements having the commercial effect of annuity payments); and
 - (ii) Financial Indebtedness outstanding under any Intra-Group Loans,

less: the value of all Authorised Investments of the Financing Group and other amounts standing to the credit of any Account (other than any Excluded Accounts and other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date),

provided that, in each case above, where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated:

- (a) in respect of debt with an associated Currency Hedging Agreement, by reference to the applicable hedging rates specified in the relevant Currency Hedging Agreement; and
- (b) in respect of debt with no associated Currency Hedging Agreement, 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 any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

“**Senior Term Facilities**” means the £456,000,000 term facilities provided to AWL by the Senior Term Facility Providers pursuant to the Senior Facilities Agreement.

“**Senior Term Facility Provider**” means each of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc or any successor thereto (together, the “**Senior Term Facility Providers**”) that have agreed to provide a term facility to AWL under the terms of the Senior Facilities Agreement.

“**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 Class and/or Sub-Class with any previously issued Class and/or Sub-Class.

“**Settlement and Acknowledgement Deed**” means the settlement and acknowledgement deed dated on or about the Closing Date between, among others, the Security Trustee, the Programme Issuer, AWL and AWHL.

“**SFA Finance Document**” has the meaning given to the term “**SFA Finance Document**” in the Senior Facilities Agreement.

“Shared Services Agreement” means

- (a) the services agreement between AWL and AWSS dated 16 July 2009;
- (b) the services agreement originally between AWE and AWSS dated 16 July 2009 and transferred from AWE to AWL pursuant to the unification of the businesses of AWE, AWSE and AWL;
- (c) the services agreement originally between AWSE and AWSS dated 16 July 2009 and transferred from AWSE to AWL pursuant to the unification of the business of these entities,

pursuant to which certain services are provided by AWSS to AWL.

“Share Pledges” means the pledges, charges or equitable mortgages (as the case may be) dated on or about the Closing Date, in favour of the Security Trustee, over the shares in AWL, the Issuer and the Programme Issuer and **“Share Pledge”** means any one of them.

“Shipwreck Clause” means a clause which may be contained in the Instrument of Appointment of a Regulated Company and which in the case of AWL is contained in Part IV of Instrument of Appointment Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its Instrument of Appointment, request price limits to be reset if the 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.

“Shortfall Paragraph” has the meaning given to such term in Paragraph 8.8(c) of Schedule 10 (*Cash Management*) to the CTA.

“SIM” means Service Incentive Mechanism.

“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 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 LF Provider Minimum Rating 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 the STID, a standstill of claims of the Secured Creditors against AWL, the Issuer and the Programme Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.

“**Standstill Cash Manager**” means Barclays Bank PLC in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager appointed in accordance with Schedule 10 (*Cash Management*) to the CTA.

“**Standstill Cash Manager Minimum Rating**” means in respect of

- (a) Moody’s, P-1;
- (b) S&P: A-1; and
- (c) Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent): F1,

or, in each case, such lower rating level notified in writing by AWL to the Security Trustee:

- (i) which, in the opinion of AWL having discussed with the relevant Rating Agencies, would not lead to any downgrade or the placing on credit watch negative (or equivalent) of the then current ratings ascribed to any Class and/or Sub-Class of Bonds and/or the Notes; and
- (ii) provided that such rating shall not be required from any such Rating Agency that is not then rating the Bonds and/or the Notes.

“**Standstill Event**” means an event giving rise to a Standstill in accordance with the STID.

“**Standstill Extension**” means any of the periods for which a Standstill Period is extended in accordance with the STID.

“**Standstill Period**” means a period during which a standstill arrangement is subsisting, commencing on the date as determined by clause 16.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by clause 16.4 (*Termination of Standstill*) of the STID.

“**Standstill Remedy**” shall have the meaning given to such term in sub-clause 16.4.1(c) (*Termination of Standstill*) of the STID.

“**Statutory Accounts**” means the statutory accounts which AWL is required to prepare in compliance with the Companies Act, as amended from time to time.

“**Sterling**” or “**sterling**” means the lawful currency of the United Kingdom.

“**STID**” means the security trust and intercreditor deed entered into on or about the Closing Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Note Trustee (referred to as the “Existing Issuer Bond Trustee” in the STID).

“**STID Direct Voting Matter**” means any Voting Matter (other than any STID Proposal that gives rise to an Entrenched Rights Matter) proposed via a STID Proposal and its accompanying STID Voting Request and/or proposed via a Direction Notice to Qualifying Bondholders and/or Qualifying Existing Bondholders.

“**STID Matter**” means a STID Proposal, an Instruction Notice and/or Direction Notice.

“**STID Proposal**” has the meaning given to such term in clause 8.1 (*Instigation of STID Proposal*) of the STID.

“**STID Voting Request**” has the meaning given to such term in the STID.

“**Stock Exchange**” means the London Stock Exchange or any other or further stock exchange(s) on which any Bonds and the Notes may from time to time be listed, and references in any Finance Document to the “relevant Stock Exchange” shall, in relation to any Bonds and the Notes, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed.

“**Sub-Class**” means 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, the Programme Issuer or AWL 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 Payment Priorities.

“**Subordinated Creditor**” means any credit provider in respect of Subordinated Debt where such credit provider has acceded to the CTA and the STID in such capacity.

“**Subordinated Debt**” means any Financial Indebtedness incurred by AWHL that is fully subordinated, in a manner satisfactory to the Security Trustee, to the Senior Debt and where the relevant Subordinated Creditor has acceded to the CTA and the STID.

“**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 or the Programme 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 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 recurring fees and commissions) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

“**Subordinated Step-up Fee Amounts**” means, in the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms or Drawdown Prospectus to be payable on such Bonds in excess of the initial margin as at the date on which such Bonds were issued and, in the case of Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms or Drawdown Prospectus to be payable on such Bonds in excess of the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued.

“**Subscription Agreement**” means the agreement between the Issuer and the Joint Lead Managers, dated 10 July 2014, under which the Issuer has authorised and requested the Joint Lead Managers to circulate these Listing Particulars in connection with the Further Notes, subject as provided in the Subscription Agreement.

“**Subsidiary**” means:

- (a) a subsidiary within the meaning of section 1160 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**Super-Senior Interest Rate Hedging Agreement**” means each Existing Hedging Agreement and each other Interest Rate Hedging Agreement designated as such in the relevant Accession Memorandum to the STID.

“**Super-Senior RPI Linked Hedging Agreement**” means each RPI Linked Hedging Agreement which is a Super-Senior Interest Rate Hedging Agreement.

“**Swap Collateral Account**” means each account of the Issuer, the Programme Issuer or AWL, as the case may be, into which any collateral provided by a Hedging Counterparty shall be deposited upon the relevant trigger occurring for the provision of such collateral under the terms of the applicable Hedging Agreement.

“**Talonholders**” means the several persons who are for the time being holders of the Talons.

“**Talons**” means the talons appertaining to and exchangeable in accordance with the provisions set out in the Trust Deed contained for further coupons appertaining to the Notes and includes any replacement Talons issued pursuant to Condition 10 (*Replacement of Notes, Coupons and Talons*), substantially in the form set out in Part D of Schedule 2 of the Trust Deed.

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer system which utilises a single shared platform and which was launched on 19 November 2007.

“**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 Credit**” means a credit against any Tax, or any relief or remission for, or repayment of any Tax.

“**Tax Deed of Covenant**” means the deed of covenant entered into on or about the Closing Date by, among others, the Security Trustee, the Parent and the Obligor.

“**TDC Breach**” has the meaning given to it in the Tax Deed of Covenant.

“**TDC Event**” has the meaning given to it in the Tax Deed of Covenant.

“**TEFRA C Rules**” means United States Treasury Regulation §1.163-(c)(2)(i)(C).

“**TEFRA D Rules**” means United States Treasury Regulation §1.163-5(c)(2)(i)(D).

“**Temporary Global Note**” means a temporary global note in the form or substantially in the form set out in Part A of Schedule 1 to the Trust Deed issued by the Issuer.

“**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,

provided that for the Calculation Date falling on 31 March 2013 and 30 September 2013, the first Test Period shall be from 31 March 2013 to 31 March 2014.

“**Threshold Class A RAR**” means 0.75:1.

“**Threshold Senior RAR**” means 0.85:1.

“**totex approach**” means the “total expenditure approach”.

“**Tranche**” means all Bonds which are identical in all respects save for the issue date, interest commencement date and issue price.

“**Transaction Account**” means the accounts of each of the Issuer and the Programme Issuer entitled the “**Transaction Account**” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

“**Transaction Agent**” means AWL, acting as transaction agent for itself and (as applicable) for each other Obligor.

“**Transaction Documents**” means:

- (a) a Finance Document; and
- (b) any other document designated as such by the Security Trustee, the Issuer and the Programme Issuer.

“**Transfer Agent**” means Deutsche Bank Luxembourg S.A. under the Agency Agreement, including any successors thereto.

“**Transfer Scheme**” means a transfer scheme under Schedule 2 of the WIA.

“**Transitional Agreements**” means:

- (a) the agreement for the provision of transitional services between VWCF and Veolia Water UK PLC dated 27 June 2012;
- (b) the capability sharing agreement between Veolia Water Outsourcing Limited and AWL dated 27 June 2012; and
- (c) the secondment agreement between AWL and Veolia Water UK PLC dated 27 June 2012.

“**Transparency Directive**” means Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

“**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, index-linked swap, currency swap or combined similar agreement.

“**Trigger Event**” means any of the events or circumstances identified as such in Schedule 5 (*Trigger Events*) to the CTA.

“**Trigger Event Ratio Levels**” means the financial ratios set out in Paragraph 1 (*Financial Ratios*) of Part 1 (*Trigger Events*) of Schedule 5 (*Trigger Events*) to the CTA.

“**Trust Corporation**” means a corporation entitled by rules made under the Public Trustee Act 1906 of Great Britain to act as a custodian trustee or entitled pursuant to any other comparable legislation applicable to a trustee in any other jurisdiction to carry out the functions of a custodian trustee.

“**Trust Deed**” means the trust deed in respect of the Notes between the Issuer, AWL and the Note Trustee dated 13 July 2004 as amended and restated on 16 August 2004 (with effect as of 13 July 2004) and as amended by a deed of variation on 4 February 2013 and as further supplemented by a trust deed dated on or around the date hereof and as further amended or supplemented from time to time.

“**Trustee Acts**” means the Trustee Act 1925 and the Trustee Act 2000 of England and Wales.

“**UK**” means the United Kingdom.

“**UK Listing Authority**” or “**UKLA**” means the Financial Conduct Authority in its capacity as competent authority under the FSMA.

“**Ultimate Controller**” means any person (including, without limitation, a corporate body) who or which (alone or jointly with others and whether directly or indirectly) is (in the reasonable opinion of Ofwat) in a position to control, or to exercise material influence over, the policy or affairs of the regulated business or of any holding company of the regulated business.

“**Unrestricted Chargors**” means AWHL and other entities which accedes to the Security Agreement that is not restricted by its regulatory or statutory obligations from providing guarantees to any other entity and an “**Unrestricted Chargor**” means any of them.

“**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 Chargor is a party.

“**U.S. dollar**”, “**U.S.\$**”, “**dollar**” and “**\$**” means the lawful currency of the United States of America.

“**VAT**” (a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means within the European Union such Tax as may be levied in accordance with (but subject to derogations from) the Directive 2006/112/EC and outside the European Union any similar Tax levied by reference to added value or sales.

“**Voted Qualifying Class A Debt**” means the aggregate Outstanding Principal Amount of Qualifying Class A Debt voted by the Class A DIG Representatives in accordance with the STID.

“**Voted Qualifying Class B Debt**” means the aggregate Outstanding Principal Amount of Qualifying Class B Debt voted by the Class B DIG Representatives in accordance with the STID.

“**Voted Qualifying Secured Debt**” means the aggregate of the Voted Qualifying Class A Debt and the Voted Qualifying Class B Debt.

“**Voting Matters**” are matters which are not Discretion Matters or Enhanced Rights Matters.

“**VUKPP**” means the Veolia UK Pension Plan, an occupational pension scheme currently governed by a definitive trust deed dated 22 October 1997 and rules adopted thereby.

“**VWC**” means Veolia Water Central Limited.

“**VWE**” means Veolia Water East Limited.

“**VWSE**” means Veolia Water Southeast Limited.

“**WASC**” means water and sewerage companies.

“**Water Act**” means the Water Act 2003.

“**Water Act 2014**” means the Water Act which receive Royal Assent on 14 May 2014 and which implements certain proposals made in the Water White Paper.

“**Water Framework Directive**” means the Directive 2000/60/EC of the European Parliament and of the Council establishing a framework for the Community action in the field of water policy.

“**Water Regulations**” means Water Supply (Water Quality) Regulations 2010.

“**Water White Paper**” means the Government White Paper “*Water for Life*” published on 8 December 2011.

“**WIA**” means the Water Industry Act 1991, as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999, the Water Act and the Water Act 2014.

“**Working Capital Facility**” means the £30 million revolving working capital facility provided pursuant to the Senior Facilities Agreement.

“**Working Capital Facility Provider**” means each of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc, or any successor thereto (together, the “**Working Capital Facility Providers**”) that have agreed to provide a revolving working capital facility to AWL under the terms of the Senior Facilities Agreement.

“**WRA**” means the United Kingdom Water Resources Act 1991 as amended by subsequent legislation including the United Kingdom Environment Act 1995.

“**WSL**” means Water Supply Licensing.

“**WSRA**” means the Water Services Regulation Authority (WSRA, and otherwise known as Ofwat), the economic regulator of the water and sewerage industry in England and Wales and any relevant successor bodies to the Water Services Regulation Authority.

“**\$**” means the lawful currency of the United States of America.

“**£**” means the lawful currency of the United Kingdom.

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