

## IMPORTANT NOTICE

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This Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus electronically or otherwise to any other person. In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must not be U.S. persons (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent at your request and by accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (i) you have understood and agree to the terms set out herein, (ii) you consent to delivery of this Prospectus and any amendment or supplement thereto by electronic transmission, (iii) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this email has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (iv) if you are a person in the United Kingdom, then you are a person who (A) has professional experience in matters relating to investments or (B) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.

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, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc 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 HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc or such affiliate on behalf of Affinity Water Programme Finance Limited in such jurisdiction.

This Prospectus has 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 Affinity Water Programme Finance Limited or any of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc (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 Prospectus distributed to you in electronic format and the hard copy version available to you on request from HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited or The Royal Bank of Scotland plc.

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

If you receive this Prospectus 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 PROGRAMME FINANCE LIMITED**

*(incorporated with limited liability under the laws of the Cayman Islands with registered number 274647)*

**£2,500,000,000**

## **Multicurrency programme for the issuance of Guaranteed Bonds financing**

### **Affinity Water Limited**

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

The payment of all amounts owing in respect of the bonds (the "**Bonds**") will be unconditionally and irrevocably guaranteed by Affinity Water Holdings Limited ("**AWHL**"), Affinity Water Limited ("**AWL**") and Affinity Water Finance (2004) Limited (previously known as Affinity Water Finance (2004) PLC and as Veolia Water Central Finance PLC) (the "**Existing Issuer**") as described herein. The Existing Issuer, Affinity Water Programme Finance Limited (the "**Programme Issuer**"), AWHL and AWL are together referred to herein as the "**Obligors**". On the Closing Date, AWHL will have no significant assets other than the shares in its wholly-owned subsidiary, AWL.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended ("**FSMA**") (the "**UK Listing Authority**" or "**UKLA**") for Bonds issued under the £2,500,000,000 multicurrency programme (the "**Programme**") during the period of twelve months after the date hereof, 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 Bonds to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Market in Financial Instruments Directive**") of the European Parliament and of the Council on markets in financial instruments. The Programme provides that Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Obligors and the relevant Dealer (as defined below). The Programme Issuer may also issue unlisted Bonds.

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

**Interests in a Temporary Global Bond (as defined below) will be exchangeable for Permanent Global Bond or definitive securities in bearer form as more fully described in Chapter 8 "**The Bonds**" under "**Forms of the Bonds**".**

**See Chapter 4 "**Risk Factors**" for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

#### **Arranger**

**The Royal Bank of Scotland**

#### **Dealers**

**HSBC**

**Lloyds Bank**

**National Australia Bank Limited**

**RBC Capital Markets**

**The Royal Bank of Scotland**

Base Prospectus dated 18 January 2013

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

The maximum aggregate nominal amount of all Bonds from time to time Outstanding (as defined below) under the Programme will not exceed £2,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

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

Bonds issued by the Programme Issuer under the Programme will be issued in series (each a "**Series**") and in one or more of two classes (each a "**Class**") and will be designated as one of Class A Bonds or Class B Bonds. Each Class may comprise one or more sub-classes (each a "**Sub-Class**") with each Sub-Class pertaining to, among other things, the currency, interest rate and Maturity Date (as defined below) of the relevant Sub-Class. Each Sub-Class may be fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws). Bonds may be issued in one or more tranches (each a "**Tranche**"), the specific terms of each Tranche being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.

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

Class	Moody's	Standard & Poor's
Class A Bonds.....	A3	A-
Class B Bonds.....	Baa3	BBB

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 this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Moody's Investors Service Limited ("**Moody's**"), Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and, where applicable, Fitch Ratings Limited ("**Fitch**"). Each of Fitch, 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.

Whether or not a rating in relation to any Tranche of Bonds will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms or Drawdown Prospectus. Ratings ascribed to all of the Bonds reflect only the views of the Rating Agencies.

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

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.

Each Sub-Class of Bearer Bonds may be represented initially by a Temporary Global Bond (as defined below), without interest coupons, which will be deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**") on or about the Issue Date (as defined below) of such Sub-Class.

In relation to any issue of Bonds which are either a Temporary Global Bond exchangeable for Definitive Bearer Bonds in circumstances other than in the limited circumstances specified in the Permanent Global Bond, such Bonds may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

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

In the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Directive 2003/71/EC (the "**Prospectus Directive**"), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency at the date of issue of the relevant Bonds).

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

## IMPORTANT NOTICE

This prospectus (the "**Prospectus**") comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Programme Issuer and the other Obligors which, according to the particular nature of the Programme Issuer and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Programme Issuer.

Each of the Programme Issuer and the other Obligors accepts responsibility for the information contained in this Prospectus (including the Appendices). To the best of the knowledge and belief of the Programme Issuer and each of the other Obligors (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus (including the Appendices) 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 Programme 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.

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

Copies of each set of Final Terms or Drawdown Prospectus (in the case of Bonds to be admitted to the Official List) will be available from Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ and from the specified office set out below of each of the Paying Agents or the Registrar and Transfer 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 this Prospectus, are for information purposes only and do not form part of this Prospectus. See also Chapter 13 "*General Information*" for more details.

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

Save for the Programme 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 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 Obligor) 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 this Prospectus or any other information supplied in connection with the Bonds or their distribution (other than, in respect of the Hedging Counterparties, the information in Chapter 10 "*Description of the Hedging Counterparties*"). The statements made in this paragraph are without prejudice to the respective responsibilities of the Programme Issuer and the other Obligor. Each person receiving this Prospectus acknowledges that such person has not relied on any Dealer, the Arranger, the Bond 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 Programme Issuer, the other Obligor, any member of the Financing Group or the Affinity Group, the Arranger, the Dealers, the Bond Trustee, the Security Trustee or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a "securitisation" for the purpose of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU as amended by Directive 2009/111/EC (the "**CRD**")) and the application of Article 122a of the CRD to any such transaction) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Bonds 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 this Prospectus for further information.

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

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

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

THE BONDS AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE BONDS MAY INCLUDE BEARER BONDS THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE BONDS MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER BONDS, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

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

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

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Programme Issuer, the other Obligors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see Chapter 12 "*Subscription and Sale*". This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for any of the Bonds.

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 any Tranche of Bonds, the Dealer (if any) disclosed as the stabilising manager in the applicable Drawdown Prospectus or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Bonds of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager or any agent of his will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over allotment shall be conducted by the relevant stabilising manager or any person acting for him in accordance with all applicable laws and rules.**

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- (a) the audited annual unconsolidated financial statements of the Existing Issuer (previously known as Veolia Water Central Finance PLC) for the years ended 31 March 2012 and 31 March 2011, each of which have been previously published and which have been filed with the UKLA; and
- (b) the audited annual unconsolidated financial statements of AWL (previously known as Veolia Water Central Limited) for the years ended 31 March 2012 and 31 March 2011, each of which have been previously published,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any information or documents which are themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus.

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

Copies of documents deemed to be incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. The contents of this website, other than copies of those documents deemed to be incorporated by reference into this Prospectus, are for information purposes only and do not form part of this Prospectus.

The Programme Issuer will provide, free of charge, upon oral or written request, a copy of this Prospectus (or any document incorporated by reference in this Prospectus) at the specified offices of the Bond Trustee and (in the case of Bearer Bonds) at the offices of the Paying Agents and (in the case of Registered Bonds) at the offices of the Registrar and the Transfer Agents.

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



## SUPPLEMENTAL PROSPECTUS

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

Each of the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in Chapter 12 "*Dealership Agreement - Subscription and Sale*") to comply with Section 81 of the Financial Services and Markets Act 2000 (the "**FSMA**").

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

If at any time the Programme Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87(G) of the FSMA, the Programme Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87(G) of the FSMA.

## FINAL TERMS AND DRAWDOWN PROSPECTUS

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

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained in the relevant Final Terms or in a Drawdown Prospectus. Such information will be contained in the relevant Final Terms unless any such information constitutes a significant new factor relating to the information contained in this Prospectus in which case such information together with all of the necessary information in relation to the Bonds, may be contained in a Drawdown Prospectus. In addition, the Obligors may agree with any Dealer and the Bond Trustee that Bonds may be issued in a form not contemplated by the Conditions (as defined below), in which event (in the case of Bonds admitted to the Official List only) a drawdown prospectus will be made available which will describe the effect of the agreement reached in relation to such Bonds.

The terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Programme Issuer and the relevant Bonds.

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

## CONTENTS

	Page
CHAPTER 1 THE PARTIES .....	1
CHAPTER 2 OVERVIEW OF THE PROGRAMME .....	4
CHAPTER 3 OVERVIEW OF THE FINANCIAL STRUCTURE .....	12
CHAPTER 4 RISK FACTORS.....	15
CHAPTER 5 DESCRIPTION OF THE FINANCING GROUP.....	31
CHAPTER 6 REGULATION OF THE WATER INDUSTRY IN ENGLAND AND WALES.....	52
CHAPTER 7 OVERVIEW OF THE FINANCING AGREEMENTS .....	68
CHAPTER 8 THE BONDS.....	115
CHAPTER 9 USE OF PROCEEDS.....	163
CHAPTER 10 DESCRIPTION OF THE HEDGING COUNTERPARTIES .....	164
CHAPTER 11 TAX CONSIDERATIONS .....	167
CHAPTER 12 SUBSCRIPTION AND SALE .....	170
CHAPTER 13 GENERAL INFORMATION .....	174
CHAPTER 14 GLOSSARY OF DEFINED TERMS.....	177
INDEX OF DEFINED TERMS .....	240

## CHAPTER 1 THE PARTIES

<b>Programme Issuer</b>	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. The Programme Issuer is a wholly-owned subsidiary of AWL.
<b>Existing Issuer</b>	Affinity Water Finance (2004) Limited (previously known as Affinity Water Finance (2004) PLC and as Veolia Water Central Finance PLC) is a special purpose vehicle incorporated in England and Wales with limited liability with company number 05139236, is the issuer of the £200,000,000 5.875 per cent. guaranteed bonds due 2026 guaranteed by AWL (the " <b>Existing Issuer Bonds</b> "). The Existing Issuer is a wholly-owned subsidiary of AWL. The Existing Issuer is not entitled to issue Bonds under the Programme.
<b>AWL</b>	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 " <b>Instrument of Appointment</b> "). As at the Closing Date, AWL will be a wholly-owned subsidiary of AWHL.
<b>AWHL</b>	Affinity Water Holdings Limited, a company incorporated with limited liability in England and Wales (registered number 8350099). AWHL is a wholly-owned subsidiary of Parent.
<b>Parent</b>	Affinity Water Capital Funds Limited, a private company incorporated with limited liability in England and Wales (registered number 02630142).
<b>Guarantors/Obligors</b>	Pursuant to the terms of the Security Agreement (i) AWHL will guarantee the obligations of AWL, the Programme Issuer and the Existing Issuer under each Finance Document in favour of the Security Trustee and (ii) AWL, the Programme Issuer and the Existing Issuer, will 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 Existing Issuer are collectively referred to herein as the " <b>Guarantors</b> " or " <b>Obligors</b> " and each a " <b>Guarantor</b> " or " <b>Obligor</b> ".
<b>Financing Group</b>	<p>The Financing Group will be comprised of AWHL, AWL, the Programme Issuer, the Existing Issuer and the Existing Dormant Subsidiaries on the Closing Date and, following the Closing Date, any Permitted Subsidiaries.</p> <p>AWL will be entitled to incorporate additional issuers (each a "<b>Permitted Additional Issuer Subsidiary</b>") 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</p>

were the Programme Issuer.

<b>Existing Dormant Subsidiaries</b>	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).
<b>Affinity Group</b>	Affinity Water Acquisitions (Investments) Limited and its Subsidiaries from time to time.
<b>Arranger</b>	The Royal Bank of Scotland plc.
<b>Dealers</b>	HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc will act as dealers (together with any other dealer appointed from time to time by the Programme Issuer and the other Guarantors, the " <b>Dealers</b> ") generally with respect to the Programme. HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc will be Dealers in respect of the Bonds issued by the Programme Issuer on the Closing Date.
<b>Existing Hedging Counterparties</b>	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 " <b>Existing Hedging Counterparty</b> ". The Existing Hedging Counterparties are under no obligation to enter into any Treasury Transactions after the Closing Date.
<b>Hedging Counterparties</b>	The Existing Hedging Counterparties and any counterparty to a Hedging Agreement which will be a party to the STID on Closing Date or will become a party to the STID in accordance with the STID at any time thereafter, and " <b>Hedging Counterparty</b> " means any of such parties.
<b>Bond Trustee</b>	Deutsche Trustee Company Limited will act as trustee (the " <b>Bond Trustee</b> ") for and on behalf of the holders (the " <b>Bondholders</b> ") of the Bonds.
<b>Security Trustee</b>	Deutsche Trustee Company Limited will act as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the " <b>Security Trustee</b> ").
<b>Existing Issuer Bond Trustee</b>	Citicorp Trustee Company Limited acts as trustee for and on behalf of the holders of the Existing Issuer Bonds but will resign and will be replaced by Deutsche Trustee Company Limited immediately following the Closing Date, such entity (or any successor trustee appointed pursuant to the Existing Issuer Bond Trust Deed (as defined below)), the " <b>Existing Issuer Bond Trustee</b> ". The Existing Issuer Bond Trustee will be party to the CTA and the STID in respect of the Existing Issuer Bonds on the Closing Date.
<b>Secured Creditors</b>	The Secured Creditors will comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor.
<b>Existing Authorised Credit Providers</b>	The Capital Expenditure Facility Providers and the Working Capital Facility Providers (the " <b>Existing Authorised Credit Providers</b> ").
<b>Liquidity Facility Providers</b>	The DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.
<b>Senior Facilities Agreement Providers</b>	Certain financial institutions assembled from time to time by the Affinity Group (each a " <b>Senior Facilities Agreement Provider</b> ")

and together, the "**Senior Facilities Agreement Providers**").

<b>Senior Facilities Arrangers</b>	HSBC Bank plc, Lloyds TSB Bank plc, National Bank Australia Limited, Royal Bank of Canada and The Royal Bank of Scotland plc.
<b>Senior Facilities Agent</b>	The Royal Bank of Scotland plc or any other entity appointed as Facility Agent under the Senior Facilities Agreement.
<b>Finance Lessors</b>	Any financial lessor which enters into Financial Leases with AWL after the Closing Date (together the " <b>Finance Lessors</b> ").
<b>Paying Agents</b>	Deutsche Bank AG, London Branch will act as principal paying agent (the " <b>Principal Paying Agent</b> " and, together with any other paying agents appointed by the Programme Issuer, the " <b>Paying Agents</b> ") to provide certain issue and paying agency services to the Programme Issuer in respect of the Bearer Bonds and Registered Bonds.
<b>Account Bank</b>	Barclays Bank PLC, acting through its London office and any person for the time being acting as Account Bank (the " <b>Account Bank</b> ").
<b>Cash Manager</b>	AWL (the " <b>Cash Manager</b> "), or during a Standstill Period, Barclays Bank PLC (the " <b>Standstill Cash Manager</b> ").
<b>Registrar and Transfer Agent</b>	Deutsche Bank Luxembourg S.A. will act as transfer agent (the " <b>Transfer Agent</b> ") and will provide certain transfer agency services to the Programme Issuer in respect of the Registered Bonds. Deutsche Bank Luxembourg S.A. will act as registrar (the " <b>Registrar</b> ") and will provide certain registrar services to the Programme Issuer in respect of the Registered Bonds.

## CHAPTER 2 OVERVIEW OF THE PROGRAMME

The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms or Drawdown Prospectus. Words and expressions not defined in this section shall have the same meanings as defined in Chapter 8 "*The Bonds*".

<b>Description</b>	Guaranteed Bond Programme.
<b>Programme Size</b>	Up to £2,500,000,000 (or its equivalent in other currencies calculated as described herein) aggregate nominal amount of Bonds Outstanding at any time.
<b>Issuance in Classes</b>	<p>Bonds issued by the Programme Issuer under the Programme will be issued in Series, with each Series belonging to one of two Classes. The Bonds issued by the Programme Issuer are and will be designated as one of Class A Bonds or Class B Bonds. Each Class will comprise one or more Sub-Classes of Bonds with each Sub-Class pertaining to, among other things, the currency, interest rate and Maturity Date of the relevant Sub-Class and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.</p> <p>The specific terms of each Tranche of Bonds will be set out in the applicable Final Terms or Drawdown Prospectus.</p>
<b>Issue Dates</b>	The date of issue of a Tranche of Bonds as specified in the relevant Final Terms or Drawdown Prospectus (each an " <b>Issue Date</b> ").
<b>Distribution</b>	Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Certain Restrictions</b>	<p>Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances in which such laws, guidelines, regulations, restrictions or reporting requirements are complied with from time to time, including the restrictions applicable at the date of this Prospectus. See Chapter 12 "<i>Subscription and Sale</i>".</p> <p>Bonds having a maturity of less than one year from the Issue Date will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 12 "<i>Subscription and Sale</i>".</p>
<b>Currencies</b>	Euro, sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Programme Issuer and the relevant Dealer.
<b>Redenomination</b>	The applicable Final Terms or Drawdown Prospectus may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 ( <i>European Economic and Monetary Union</i> ), as amended by the applicable Final Terms or Drawdown Prospectus.

<b>Maturities</b>	Such maturities as may be agreed between the Programme Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Programme Issuer or the Relevant Currency (as defined in the Conditions).
<b>Issue Price</b>	Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Interest</b>	Bonds will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Final Terms or Drawdown Prospectus, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Programme Issuer and the relevant Dealer as specified in the relevant Final Terms or Drawdown Prospectus.
<b>Form of Bonds</b>	Each Sub-Class of Bonds will be issued in bearer or registered form as described in Chapter 8 " <i>The Bonds</i> ". Registered Bonds will not be exchangeable for Bearer Bonds.
<b>Fixed Rate Bonds</b>	Fixed Rate Bonds will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Programme Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms or Drawdown Prospectus.
<b>Floating Rate Bonds</b>	<p>Floating Rate Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class) as set out in the relevant Final Terms or Drawdown Prospectus; or</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service (being EURIBOR, LIBOR or such other reference rate as may be specified in a Drawdown Prospectus).</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Programme Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds.</p>
<b>Indexed Bonds</b>	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a) ( <i>Definitions</i> )) may be calculated in accordance with Condition 7 ( <i>Indexation</i> ) by reference to the UK Retail Price Index.
<b>Interest Payment Dates</b>	Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear and in respect of Floating Rate Bonds and Indexed Bonds is



or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Final Terms or Drawdown Prospectus).

**Redemption**

The applicable Final Terms or Drawdown Prospectus will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, or for taxation reasons if applicable, or following an Index Event or (subject to the terms of the STID) following an Event of Default) or that such Bonds will be redeemable at the option of the Programme Issuer and/or the Bondholders upon giving notice to the Bondholders or the Programme Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices as may be agreed between the Programme Issuer and the relevant Dealer, in each case as set out in the applicable Drawdown Prospectus.

**Redemption for Index Event, Taxation or Other Reasons**

Upon the occurrence of certain Index Events (as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)), the Programme Issuer may redeem all, but not some only, of the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds referable to the Index the subject of such Index Event are also redeemed.

In addition, in the event of the Programme Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Programme Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Programme Issuer may (but is not obliged to) (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)) and, failing this, (b) redeem (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)) all (but not some only) of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest.

In the event of AWL electing to prepay an advance under a Programme Issuer/AWL Loan Agreement where such advance was funded by the proceeds of an issuance of a Sub-Class of Bonds (in whole or in part), the Programme Issuer shall be obliged to redeem all or the relevant part of such Sub-Class of Bonds or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Programme Issuer/AWL Loan Agreement.

No single Class or Sub-Class of Bonds may be redeemed if the Programme Issuer is obliged to make any deduction or withholding from payments in respect of the Bonds, unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time.

**Denomination of Bonds**

Bonds will be issued in such denominations as may be agreed between the Programme Issuer and the relevant Dealer save that (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under

the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds) and (ii) in any other case, the minimum specified denomination of each Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Currency. The "Specified Denomination" will be specified in the Final Terms or Drawdown Prospectus (see section "*Certain Restrictions*" above).

## **Taxation**

Payments in respect of Bonds 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 Programme Issuer will make payments subject to the appropriate withholding or deduction. Notwithstanding the foregoing, no additional amounts will be paid by the Programme Issuer or the Guarantors in respect of any withholdings or deductions, unless otherwise specified in the applicable Drawdown Prospectus.

## **Status of the Bonds**

The Bonds issued under the Programme will constitute secured obligations of the Programme Issuer. Any Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Class, each of which will be issued on identical terms save for the first Interest Payment Date, the Issue Date and the Issue Price and will be consolidated and form a Series with the prior issues of the relevant Class.

Each Class of Bonds issued under the Programme will rank *pari passu* without preference or priority in point of security amongst themselves.

The Bonds will represent the right of the holders of such Bonds to receive interest and principal payments from the Programme Issuer in accordance with the terms and conditions of the Bonds (the "**Conditions**") and the trust deed (as amended, supplemented or restated from time to time) (the "**Bond Trust Deed**") to be entered into by the Programme Issuer, the Obligors and the Bond Trustee in connection with the Programme.

The Class A Bonds and any further Class A Bonds issued under the Programme will rank *pari passu* with respect to payments of interest and principal. All claims in respect of the Class A Bonds and any further Class A Bonds issued under the Programme will rank in priority to payments of interest and principal due on all Class B Bonds.

In the case of interest and principal on Class B Bonds only, if, on any Interest Payment Date or any date upon which such Class B Bond is to be redeemed (in whole or in part) prior to the taking of Enforcement Action, there are insufficient funds available to the Programme Issuer to pay accrued interest or principal on the Class B Bonds (after taking into account, in respect of interest, any amounts available to be drawn under any DSR Liquidity Facility or from the Class B Debt Service Reserve Account of the Programme Issuer), the Programme Issuer's liability to pay such accrued interest or principal will be treated as not having fallen due and will be deferred

until the earliest of:

- (i) the next following Interest Payment Date on which the Programme Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon);
- (ii) the date on which the Class A Debt has been paid in full; and
- (iii) an Acceleration of Liabilities (other than a Permitted Hedging Termination or a Permitted Lease Termination and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest or principal (including any interest accrued thereon)).

Interest will accrue on such deferred interest or principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

The Class B Bonds issued under the Programme will rank *pari passu* with respect to payments of interest and principal.

#### **Covenants**

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, among other things, the Bonds 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 Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each of AWL, AWHL and the Existing 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 will constitute 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*").

The securitised assets (being AWL's business together with the facilities available to the Financing Group) have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Bonds issued under the Programme.

#### **Intercreditor Arrangements**

The Secured Creditors and each Obligor will each be party to a security trust and intercreditor deed to be dated the Closing Date (the "**STID**"), which will regulate, 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 Existing 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 Obligor (for example, finance leases will be limited to AWL; the Programme Issuer will only be permitted to issue Bonds, enter into Programme Issuer/AWL Loan Agreements, DSR Liquidity Facilities and Hedging Agreements; and the Existing Issuer will only be permitted to enter into the Existing 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 will constitute Authorised Credit Providers as at the Closing Date (see Chapter 7 "*Overview of the Financing Agreements*").

#### **DSR Liquidity Facilities**

AWL will agree 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 following the Closing Date, the DSR Liquidity Facility Providers will make available to each of AWL, the Programme Issuer and the Existing 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 Existing 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 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 Existing 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 Class or Sub-Class of Bonds or the Existing Issuer Bonds as a result of entry into any new DSR Liquidity Facility.

#### **O&M Reserve Facilities**

AWL will agree on the Closing Date 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 and each O&M Reserve Facility to be entered into after the Closing Date will be entered into upon the terms similar to those of the DSR Liquidity Facilities (see "*DSR Liquidity Facilities*") above and Chapter 7 (*Overview of the Financing Agreements – Liquidity Facilities – General*)).

**Senior Facilities Agreement**

On the Closing Date, the senior facilities agreement dated 22 June 2012 between, among others, 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 (the "**Acquisition Facility Agreement**") will be amended and restated and refinanced (in part or in full) with the effect that: (i) the most senior facility originally made available to AWAL pursuant to the Acquisition Facility Agreement (to the extent not refinanced on the Closing Date) will be novated to AWL and become subject to the restated terms thereof; and (ii) the Capital Expenditure Facility Providers and the Working Capital Facility Providers will agree to make available the Capital Expenditure Facility and the Working Capital Facility to AWL on the terms of the Acquisition Facility Agreement as so amended and restated on the Closing Date.

**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**").

**Facility B Agreement**

On the Closing Date, as part of the amendment and restatement of the Acquisition Facility Agreement, AWL will enter into the £96,100,000 term loan facility agreement with HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc as Facility B Providers, which will document the amended and restated terms of the junior facility originally made available to AWAL as novated to AWL and expected to be refinanced (in full or in part) on the Closing Date.

**Listing**

Application has been made to admit Bonds issued under the Programme to the Official List and to admit them to trading on the Market. The Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Programme Issuer and the relevant Dealer in relation to each Series.

Unlisted Bonds may also be issued. The applicable Final Terms or Drawdown Prospectus will state whether or not the relevant Bonds are to be listed and, if so, on which stock exchange(s).

**Ratings**

The ratings assigned to the Class A Bonds and the Class B Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The initial ratings of a Series of Bonds will be specified in the

relevant Final Terms or Drawdown Prospectus.

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 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 Bonds will be governed by, and construed in accordance with, English law.

**Selling Restrictions**

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, the Cayman Islands and such other restrictions as may be required by law in the relevant jurisdiction in connection with the offering and sale of a particular Sub-Class of Bonds (see Chapter 12 "*Subscription and Sale*").

**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); (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 Programme Issuer on AWL's website.

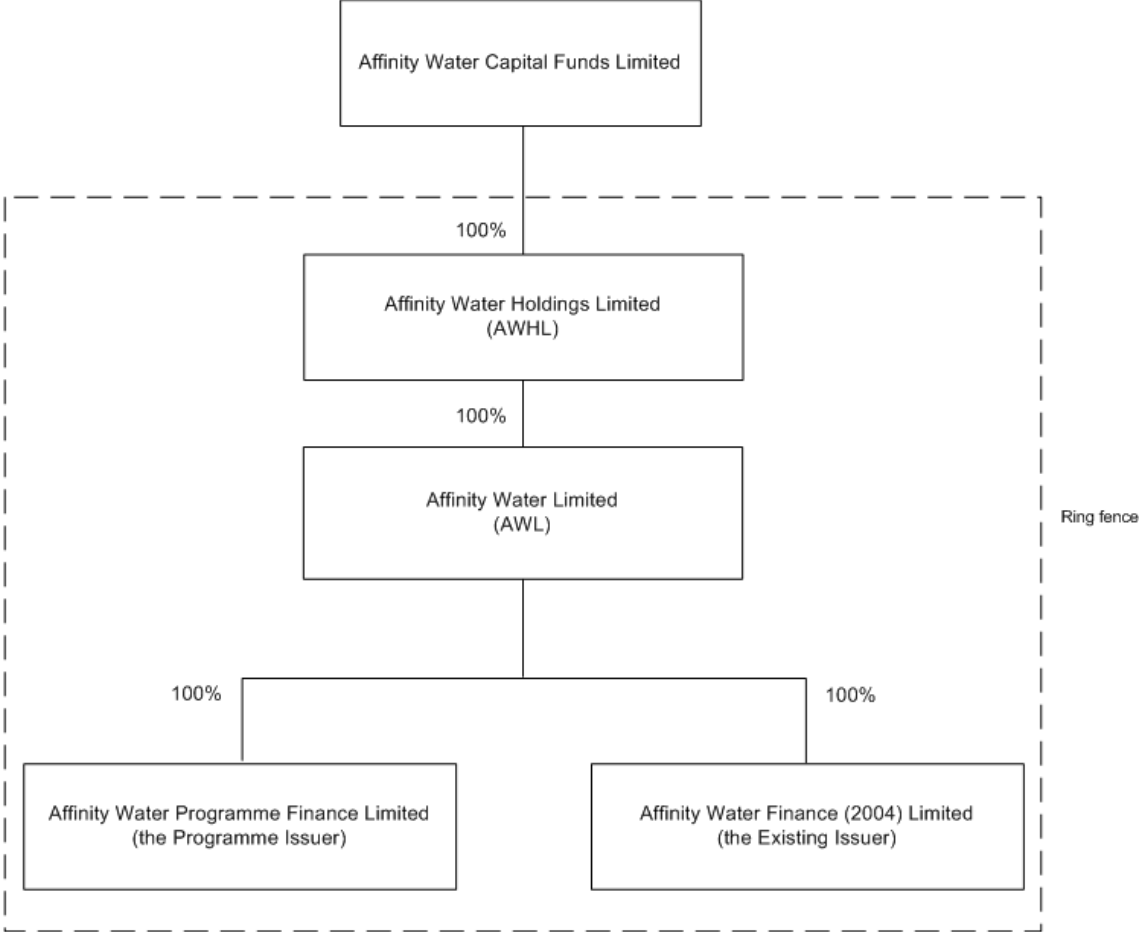
**Private Placement**

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**

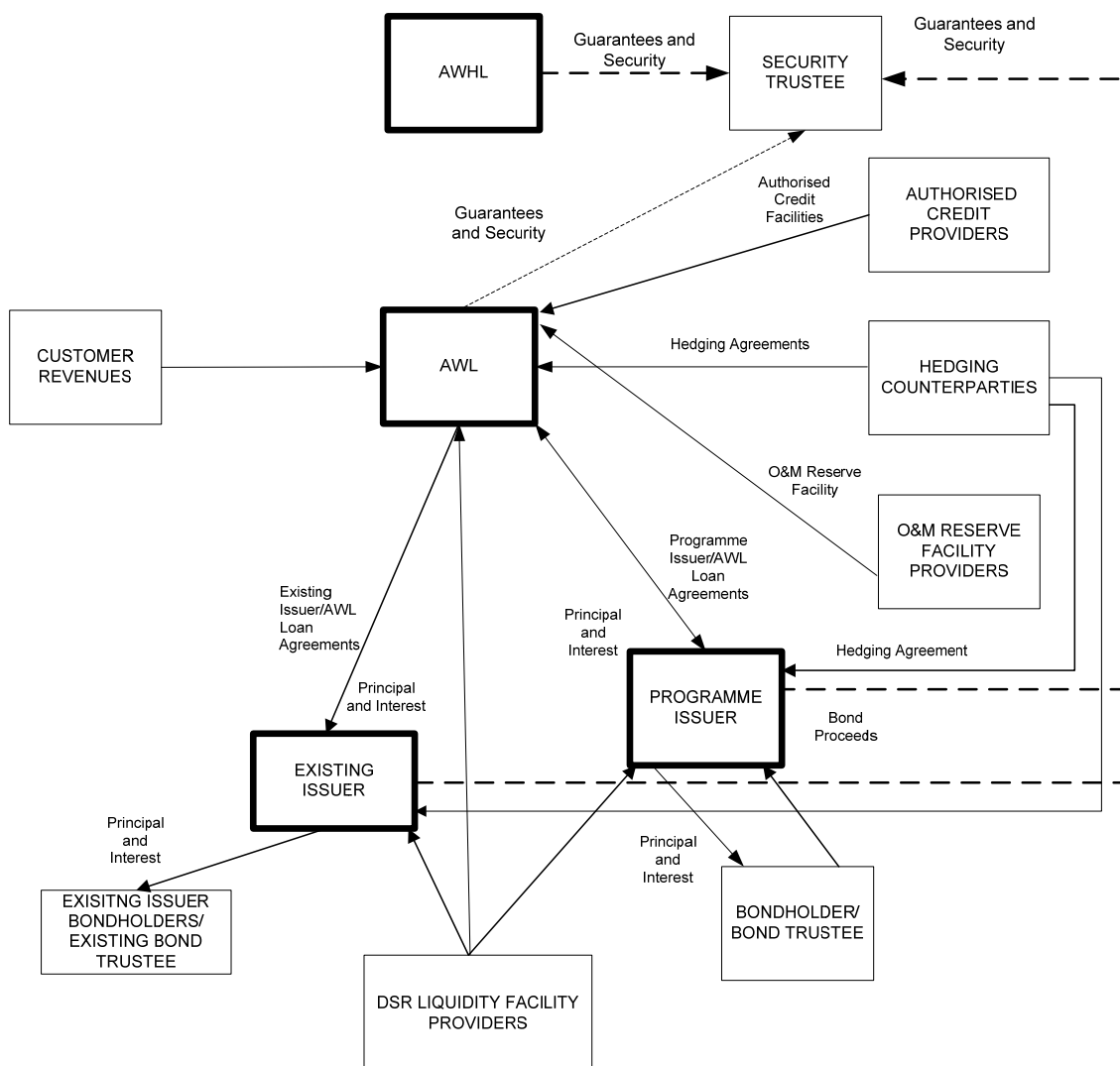
As at the Closing Date, the simplified ownership structure is expected to be as follows:



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## PROGRAMME STRUCTURE

With effect from the Closing Date, the Programme Structure is expected to be as follows:



- 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 on or after the date of this Prospectus to AWL pursuant to a Programme Issuer/AWL Loan Agreement.
- The Programme Issuer, the Existing 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.
- Prior to the Closing Date, the Existing Issuer had issued the Existing Issuer Bonds which, upon issue, were unsecured obligations of the Existing Issuer guaranteed by AWL. On or prior to the



Closing Date, the terms and conditions of the Existing Issuer Bonds will be amended to make the Existing Issuer Bonds 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 Existing Issuer/AWL Loan Agreement will document the terms of the advance that has been made by the Existing Issuer to AWL prior to the Closing Date in respect of the proceeds of the Existing Issuer Bonds issued and is intended to ensure that the Existing Issuer has sufficient funds, on each Payment Date in respect of the Existing Issuer Bonds to make payments due thereunder (see Chapter 7 "*Overview of the Financing Agreements – Intercompany Loan Arrangements*" for more detail).
- The initial Class A Bonds and any further Class A Bonds issued by the Programme Issuer from time to time under the Programme, the Existing Issuer Bonds and the Authorised Credit Facilities will form part of Class A Debt for the purposes of the STID.
- Where applicable, each of AWL, the Programme Issuer and/or the Existing 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 Existing Issuer will be passed on to AWL through the relevant Programme Issuer/AWL Loan Agreement or the Existing Issuer/AWL Loan Agreement.
- As at the Closing Date, only AWL will be party to the Hedging Transactions (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 will enter into the Programme Issuer/AWL Loan Agreements. Payments made by AWL under the Programme Issuer/AWL Loan Agreements will enable the Programme Issuer to make payments due on the Bonds issued by the Programme Issuer. Each Programme Issuer/AWL Loan Agreement will provide 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 Existing Issuer may withdraw sums standing to the credit of the Debt Service Reserve Accounts and the Programme Issuer, the Existing 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 Existing Issuer/AWL Loan Agreements to enable the Programme Issuer or the Existing Issuer, as the case may be, to make interest payments due on the Bonds or, as the case may be, the Existing Issuer Bonds); or (b) certain other payments ranking in priority to or *pari passu* with the Bonds (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 Existing Issuer to each of their Secured Creditors will be 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 Bondholders) pursuant to the Security Agreement. Additionally, AWL will guarantee in favour of the Security Trustee pursuant to the Security Agreement the respective obligations of AWL, the Programme Issuer and the Existing Issuer.
- The guarantees and security will be held by the Security Trustee for itself and on behalf of the Secured Creditors, including but not limited to the Bondholders, under the terms of the STID.

## **CHAPTER 4 RISK FACTORS**

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

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

*In addition, while the various structural elements described in this Prospectus are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Tranche of any Sub-Class receive payment of interest or repayment of principal from the Programme Issuer in respect of such Bonds 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 Commission, the Competition Commission 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 Competition Commission. Modifications to the conditions of the Instrument of Appointment may also be made without AWL's consent by the Secretary of State for the Environment by order following an adverse finding by the Competition Commission after it has investigated and reported on a monopoly or merger situation under other amendments.

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 Programme Issuer's ability to make timely payments under the Bonds.

#### ***Proposed changes to future price controls and Ofwat's Section 13 Notices***

In November 2011, Ofwat published "*Future price limits – a consultation on the framework*", ("**Future Price Limits**") a consultation on how Ofwat might set price limits that come into effect from 2015. Following the consultation, Ofwat set out its high-level framework for setting price limits from 2015 and beyond in the "*Future Price Limits – statement of principles*" ("**FPL Principles**") in May 2012. As described in more detail in Chapter 6 "*Regulation of the Water Industry in England and Wales*", the proposals set out include moves to:

- split price controls for retail and wholesale, rather than using a single price control;
- regulate outcomes with appropriate measures of success and incentives, rather than outputs; and

- use a total expenditure ("totex") approach for cost assessment, cost recovery and incentives, rather than maintaining the current distinction between capex and opex.

The impacts of these changes are uncertain as Ofwat has not yet defined its regulatory policies and methodology. The proposed changes could have a material impact on AWL's business and cash flows.

Following the publication of Future Price Limits, Ofwat issued Section 13 Notices (as defined below in Chapter 6 "*Regulation of the Water Industry in England and Wales – Instruments of Appointment – Modification of an Instrument of Appointment*") in both December 2011 and October 2012, each of which set out proposed modifications to each water company's licence which would allow Ofwat significantly more flexibility in how it sets price limits in the future (each as described in more detail in Chapter 6 "*Regulation of the Water Industry in England and Wales*").

AWL responded to each Section 13 Notice stating that it was unable to accept the proposals made but was broadly in favour of the separation of the "retail" and "wholesale" price limits. In AWL's response to the October 2012 Section 13 Notice, AWL stated that it was prepared to accept alternative licence modifications which would allow Ofwat to set separate retail and wholesale price controls from 1 April 2015 and conveyed its willingness to engage in further discussions with Ofwat.

Following a period of consultation with undertakers, Ofwat issued a third Section 13 Notice on 21 December 2012 (the "**December 2012 Section 13 Notice**"), which proposed modifications to each water company's licence but limited the flexibility sought by Ofwat as to the number, form and length of controls to "retail" controls. On 16 January 2013, AWL notified Ofwat that it accepted the licence modification proposed in the December 2012 Section 13 Notice.

Notwithstanding Ofwat's duty under Section 2 of the WIA to enable water companies to finance their activities, the modifications to AWL's Instrument of Appointment (pursuant to the December 2012 Section 13 Notice and any other Section 13 notices issued in the future) could reduce the certainty and predictability of AWL's cash flows and could impact on AWL's ability to maintain its investment grade rating. This could have a material adverse impact on each Issuer's ability to meet their obligations (including the payment of principal and interest) under the Bonds.

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

To mitigate some of the risks set out above, the CTA will provide 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. A Senior RAR Restructuring Event will constitute a Trigger Event but it shall not be an Event of Default. 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 instruction of the Majority Creditors). In addition, AWL and the Secured Creditors could agree to amend the financial ratios to reflect the changes necessary following the Price Control Change pursuant to the mechanism described in the next paragraph. If on or after the date falling on the later of 12 months after the date of the occurrence of an Event of Default resulting solely from the breach of the Senior RAR as a result of the Senior RAR Restructuring Event, such Event of Default has not been amended, waived or remedied in accordance with the provisions set out in the CTA and the STID, the relevant event shall with effect from such date constitute an Event of Default.

The CTA will allow AWL (following a Periodic Review 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, 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 Bonds and the Existing Issuer Bonds) have been affirmed by all Rating Agencies then rating the Bonds and the Existing Issuer Bonds (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 and the Existing Issuer Bonds to be downgraded below the relevant ratings set out in the definition of Rating Requirement by such Rating Agency).

Any amendment under this mechanism may be passed by the Majority Creditors notwithstanding that some Secured Creditors (including Bondholders) 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 a Class or Sub-Class of Bondholders, 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 Bondholders, the Security Trustee is given an instruction to change the financial ratios and/or associated definitions that is not in the interests of all Classes of the Bondholders.

#### ***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 of up to 10 per cent. of AWL's turnover, which could have a material adverse impact on AWL's business and cashflows. 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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

#### ***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 region. The termination, non-renewal or transfer of the Instrument of Appointment could have a material adverse impact on AWL and, consequently, on the Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

Under Section 9(4) of the WIA, if the Secretary of State 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 Bondholders' position uncertain.

### **COMPETITION IN THE WATER INDUSTRY**

Ofwat has taken steps to introduce competition into the water supply market via inset appointments and the WSL regime.

#### ***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 Programme Issuer's ability to service its obligations under the Bonds.

### ***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 (which came into force on 15 December 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 Government's Water White Paper, issued in December 2011 and the draft Water Bill, published on 10 July 2012 (and described further in Chapter 6, "*Regulation of the Water Industry in England and Wales – Regulatory Developments*") contained proposals to reduce the threshold level further to 0 megalitres for non-household consumers.

The ability of these customers 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 Programme Issuer's ability to make timely payments under the Bonds.

### **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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

#### ***Periodic Review***

The turnover, profitability and cashflow of the Appointed Business is substantially influenced by the service levels, regulatory targets and price limits established 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*".

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 Programme Issuer's ability to meet its obligations under the Bonds.

An additional consideration is the current uncertainty around how Ofwat will apply some of the regulatory mechanisms it introduced for AMP5 Period. In particular, there remains uncertainty around how Ofwat will calculate the rewards or penalties from its Capital Expenditure Incentive Scheme at the end of AMP5 Period and therefore uncertainty around the impact of this mechanism on business cash flows. This uncertainty means it is difficult to predict how AWL's business might be affected in the near future, which may have an adverse effect on the Programme Issuer's ability to service its obligations (including the payment of principal and interest) under the Bonds.

#### ***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 Programme Issuer's ability to service its obligations (including the payment of principal and interest) under the Bonds.

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 Programme Issuer's ability to service its obligations (including the payment of principal and interest) under the Bonds.

#### ***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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

#### ***Changes in the rate of inflation***

AWL's turnover and RCV are linked to the underlying rate of inflation (linked to the Retail Price Index) 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. This element of unpredictability 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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

#### ***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 costs of capital investment in 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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

#### ***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 Programme Issuer's ability to meet its obligations under the Bonds. Ofwat recently launched a consultation 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 Programme Issuer's ability to meet its obligations under the Bonds.

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. Costs may be incurred by AWL in implementing replacement sources 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 Programme Issuer's ability to meet its obligations under the Bonds.

### ***Service interruptions due to key site or installation disruption***

Unexpected failure of or disruption (including criminal acts or a major health and safety incident) at a key site or installation operated by AWL or third parties (including a reservoir 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 Programme Issuer's ability to meet its obligations under the Bonds.

### ***Contamination of water supplies***

Water supplies may be subject to contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made substances or criminal acts. In the event that 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, all the costs of any such liabilities may not be covered by insurance and insurance coverage may not continue to be available in the future. In addition, contamination of supplies could exacerbate water shortages, giving rise to the issues described above. All of this could indirectly impact the Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

### ***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 under the Shipwreck Clause, 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 will require 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 an 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 Programme Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

## **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 and AWL's Instrument of Appointment 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 Programme Issuer's obligations under the Bonds, affords significantly less protection to the Security Trustee (and, therefore, the Bondholders) 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 to be created under the Security Agreement by AWHL, the Programme Issuer and the Existing Issuer. The enforcement of the



security to be granted under the Security Agreement over the shares in any company in the Financing Group (other than the Programme Issuer and the Existing 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 Programme Issuer anticipates that any intended enforcement of the Security to be 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 to be 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 Community dimension for the purposes of the European Merger Regulation, would require consultation with Ofwat and would be reviewable by the OFT or the European Commission.

Notice of the creation of the Security by AWL will not be 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 Bondholders 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 Bondholders being unable to recover all payments of interest and principal due under the Bonds.

## **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 were 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 Bondholders.

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 this Prospectus, AWL's indebtedness is substantial in relation to its RCV. As at the date of the Prospectus, the Senior RAR will be 65 per cent. AWL is entitled under the Finance Documents to increase its leverage to 90 per cent. and expects to move its leverage to 80 per cent. through the establishment of the Programme. However, under the Finance Documents a Senior RAR of greater than 85 per cent. for (the now unified) 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 Programme Issuer/AWL Loan Agreements, which would enable the Programme Issuer to pay amounts due and owing in respect of the Bonds. Incurrence of additional indebtedness by AWL, the Programme Issuer or the Existing Issuer, which will be permitted under the Finance Documents, may materially affect the ability of AWL, the Programme Issuer or the other Obligors to pay amounts due and owing in respect of the Bonds.

### ***Hedging Risks***

The Financing Group will be required to manage its exposure to interest rate and currency risks and may manage its inflation exposure and to that effect, the Programme Issuer, the Existing Issuer and AWL will (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 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 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 Existing Issuer or AWL are terminated early and the Programme Issuer, the Existing 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 Programme Issuer in particular may be left exposed to interest rates, currency or inflation risks and, as a result, the funds available to the Programme Issuer may be insufficient to meet its obligations under the Bonds.

### ***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 enhancements to AWL's asset base;
- (ii) service Existing Authorised Credit Facilities which are outstanding after the Closing Date;
- (iii) on each date on which principal is required to be repaid and on the maturity date of the relevant Tranches of the relevant Sub-Classes of Bonds, refinance the Bonds; and
- (iv) refinance the Existing Issuer 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 will 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 Bonds or any other maturing indebtedness will be capable of being so paid when due.

### **FINANCING STRUCTURE CONSIDERATIONS**

#### ***Programme Issuer is a special purpose vehicle***

The Programme Issuer is a special purpose financing entity with no business operations other than raising external funding for AWL through the issuance of the Bonds, borrowing under the DSR Liquidity Facilities and entering into the Hedging Agreements. After the Closing Date, other than the proceeds of the issuance of Bonds, the Programme Issuer's principal source of funds for making payments due on the Bonds will be pursuant to the Programme Issuer/AWL Loan Agreements and funds available to it pursuant to any DSR Liquidity Facilities. The Programme Issuer will issue a guarantee in respect of the obligations of each of AWL and the Existing Issuer. The Existing 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 Existing Issuer Bonds, and whose principal source of funds available to service debt will be pursuant to the Existing Issuer/AWL Loan Agreements and the DSR Liquidity Facilities.

Therefore, the Programme 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 Existing 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 Programme Issuer to make payments due (including payments of interest and principal) under the Bonds.

#### ***Unification of the Affinity Group and tax risk***

Where assets are transferred between two U.K. 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 U.K. land are transferred between two companies which are at that time members of a group for the purposes of the U.K.'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 Programme 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 will make certain undertakings. The Obligors, Parent, Affinity Water Acquisitions (Holdco) Limited and Affinity Water Acquisitions (Investments) Limited will 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 will covenant 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 Bondholders***

None of the Bonds of any Class will be obligations or responsibilities of, nor will they be guaranteed by, any of the Other Parties (other than the Guarantors). The guarantee to be 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 Existing Issuer may be of limited value because it does not own, nor will it own, any significant assets and, furthermore, the Existing Issuer has Financial Indebtedness outstanding under the Existing Issuer Bonds (which constitutes Class A Debt of the Financing Group).

### ***The DSR Liquidity Facilities***

AWL will agree 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 Existing Issuer/AWL Loan Agreement to enable the Programme Issuer or the Existing Issuer to make interest payments due on the Bonds or, as the case may be, the Existing Issuer Bonds); or (b) certain other payments ranking in priority to or *pari passu* with the Bonds (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 Bonds 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 Programme Issuer's ability to make timely payments in respect of the Bonds.

### **BOND CONSIDERATIONS**

#### ***Subordination of the Class B Bonds issued by the Programme Issuer***

Payments under the Class A Bonds issued by the Programme Issuer rank in priority to payments of principal and interest due on the Class B Bonds.

If, on any Interest Payment Date or any date upon which such Class B Bond is to be redeemed (in whole or in part) prior to the taking of Enforcement Action, there are insufficient funds available to the Programme Issuer to pay accrued interest or principal on the Class B Bonds (after taking into account, in respect of interest, any amounts available to be drawn under any DSR Liquidity Facility or from the Class B Debt Service Reserve Account of the Programme Issuer), the Programme Issuer's liability to pay such accrued interest or principal will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Programme Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedging Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest or principal (including any interest accrued thereon). Interest will accrue on such deferred interest or principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

Notwithstanding the subordination of, and credit enhancement provided by, the Class B Bonds to the Class A Bonds, the Programme Issuer may, subject to certain conditions, optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds.

It should be noted that all of the Payment Dates for the various different types of Class A Debt and Class B Debt will not necessarily coincide and that, until a Standstill Period has commenced, there is no obligation to ensure that a payment made to a holder of a Class B Bond (or any other Class B Creditor pursuant to any other Class B Debt) will not lead to a deficiency of funds to make payments in respect of Class A Debt that falls due on a later date.

#### ***Rights available to Bondholders***

The Bond Trust Deed will contain provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). Where, in the sole opinion of the Bond Trustee, there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall agree to give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of the same Class, the Bond Trustee shall agree to consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof. The STID will provide 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 Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

#### ***Intercreditor Rights of Qualifying Bondholders***

The Bonds will be subject to the provisions of the STID. The STID will contain 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 will be 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 Bonds.

As far as the voting rights of the Qualifying Bondholders with respect to such matters are concerned, and subject always to the Entrenched Rights, each Qualifying Bondholder will be entitled to vote as part of the Class A DIG or, as the case may be, the Class B 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 15 "*Meetings of Bondholders, Modification, Waiver and 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 Bondholders of the relevant Class 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 Outstanding Principal Amount of each Bond 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 a Class or Sub-Class of Bondholders, 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 Bondholders, the Security Trustee is given an instruction that is not in the interests of the Bondholders.

Under the terms of the STID and the CTA, the parties thereto will agree that any further issues of debt securities by the Programme Issuer must be made subject to the intercreditor arrangements contained in the CTA and the STID (to which the Bonds are also subject).

***Limited Liquidity of the Bonds; Absence of Secondary Market for the Bonds***

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

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

***Indexed Bonds***

The Programme Issuer may issue Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). Potential investors should be aware that:

- (i) the market price of such Bonds may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Bonds or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable may be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Any of the above may ultimately have a negative effect on the ability of the Programme Issuer to meet its obligations under the Bonds.

***Trading in the clearing systems - integral multiples of less than the minimum Specified Denomination***

In relation to any issue of Bonds which have a denomination consisting of the minimum Specified Denomination (set out in the applicable Final Terms or Drawdown Prospectus) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal

amount of less than such minimum Specified Denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more of such Specified Denominations.

### ***Rating of the Bonds***

The ratings assigned by the Rating Agencies to the Bonds 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 Bonds is lowered or withdrawn, the market value of the Bonds 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 Bonds.

### ***Withholding Tax under the Bonds***

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

See Chapter 8 "*The Bonds – Terms and Conditions of the Bonds*" and Condition 8(c) (*Redemption for Index Event, Taxation or Other 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 or certain other persons 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 European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### ***Change of Law***

The structure of the transaction and, among other things, the issue of the Bonds and ratings assigned to the Bonds 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 this Prospectus which change might impact on the Bonds and the expected payments of interest and repayment of principal.



### ***European Monetary Union***

Prior to the maturity of the Bonds, the UK may become a Participating Member State in the Economic and Monetary Union and the euro may become the lawful currency of the UK. Adoption of the euro by the UK may have the following consequences:

- (i) all amounts payable in respect of the sterling-denominated Bonds may become payable in euro;
- (ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and
- (iii) the Programme Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds (see Chapter 8 "*The Bonds – Terms and Conditions of the Bonds*").

The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the UK would have on investors in the Bonds.

The potential costs to AWL of implementing procedures to deal with any possible future adoption of the euro by the UK are unclear but could be significant.

### ***Changes in Financial Reporting Standards***

Certain provisions of the Transaction Documents will contain certain conditions and/or triggers which will be 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 will be set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

The Transaction Documents will 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.

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.

## CHAPTER 5 DESCRIPTION OF THE FINANCING GROUP

### The Financing Group

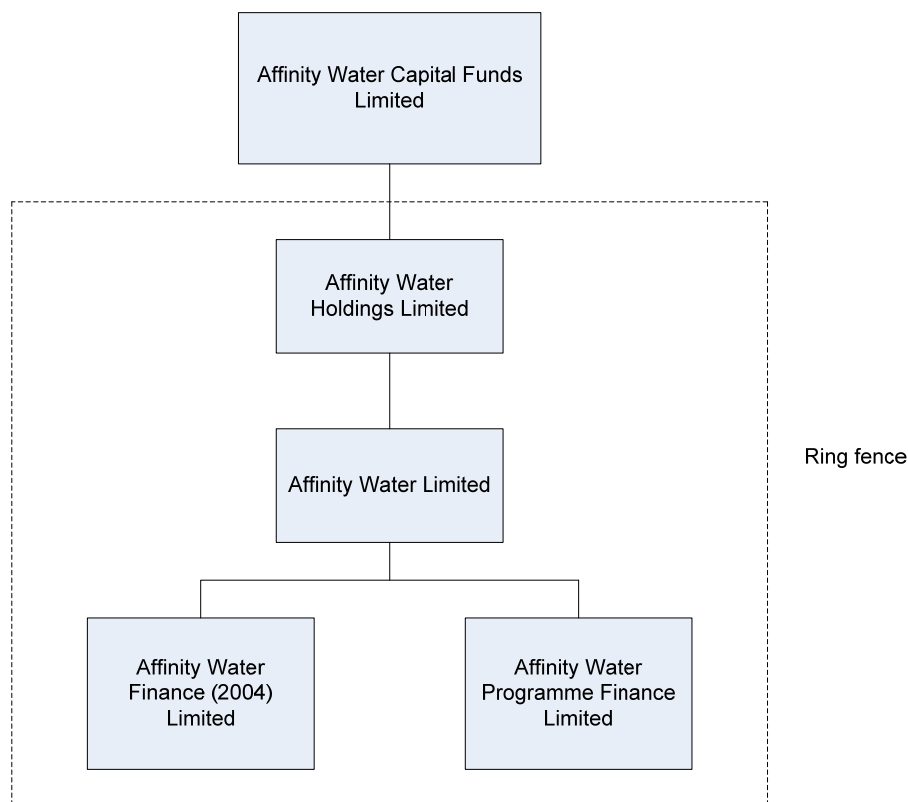
With the effect from the Closing Date, Affinity Water Holdings Limited ("**AWHL**") will be the holding company for the Financing Group. The principal business of AWHL will be holding the shares of Affinity Water Limited ("**AWL**"), the group's regulated water company.

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 PLC (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 carry out wastewater collection and treatment.

The Financing Group will be established 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 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.

Set out below is the anticipated structure of AWHL, its major subsidiaries, and its parent as at the Closing Date:



## 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 period ended 31 March 2012 (and the corresponding data from 2011) in respect of the AWL Central Region, the AWL East Region and the AWL Southeast Region (each as defined below) and the aggregated AWL value.

	<u>AWL Central Region</u>	<u>AWL East Region</u>	<u>AWL Southeast Region</u>	<u>AWL Aggregate</u>
<b>Turnover</b>				
Period ended 31 March 2012 .....	£253,040,000	£15,105,000	£19,505,000	£287,650,000
Period ended 31 March 2011 .....	£239,647,000	£14,678,000	£18,646,000	£272,971,000
<b>EBITDA<sup>1</sup></b>				
Period ended 31 March 2012 .....	£139,606,000	£8,071,000	£11,612,000	£159,289,000
Period ended 31 March 2011 .....	£123,474,000	£7,994,000	£9,497,000	£140,965,000
<b>Pre-tax Net profit</b>				
Period ended 31 March 2012 .....	£49,009,000	£3,652,000	£5,805,000	£58,466,000
Period ended 31 March 2011 .....	£30,407,000	£2,898,000	£3,058,000	£36,363,000
<b>Employees</b>				
Period ended 31 March 2012 .....	732	68	97	897
Period ended 31 March 2011 .....	735	71	99	905

The table below shows the Water Services Regulation Authority's ("Ofwat") estimates of the RCVs of AWL in respect of each of the AWL Regions for the period ending 31 March 2013:

<u>AWL's RCV in respect of</u>	<u>RCV at 31 March 2012<sup>2</sup></u>	<u>Estimated RCV (period ending 31 March 2013)<sup>3</sup></u>
	<i>(thousands)</i>	<i>(thousands)</i>
AWL Central Region .....	£805,203	£797,538
AWL East Region .....	£65,800	£64,180
AWL Southeast Region .....	£78,373	£83,830
Aggregated RCV .....	£949,376	£945,548

AWL operates in an area of approximately 4,515km<sup>2</sup> 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 (412km<sup>2</sup>) (the "AWL Southeast Region"), central (3,721km<sup>2</sup>) (the "AWL Central Region") and east (382km<sup>2</sup>) (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.

<sup>1</sup> "EBITDA" means operating profit before depreciation of infrastructure assets, depreciation of tangible fixed assets and amortisation of deferred credit.

<sup>2</sup> In 2011/2012 financial year end prices.

<sup>3</sup> Absolute value based on an aggregate of RCV as listed above for each of the AWL Regions.

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 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 PLC now maintaining a minority shareholding.

Prior to the acquisition process, it was planned that the Instruments of Appointment of VWC, VWE and VWSE be unified. On 14 March 2012 Ofwat issued a Proposal Notice, after which followed a period of formal consultation. VWC, VWE and VWSE were unified, with effect from 27 July 2012.

On unification, VWC acquired all of the respective property, rights and liabilities of VWE and VWSE (including their respective debenture stocks) pursuant to transfer schemes in accordance with Schedule 2 to the WIA.

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. The company was renamed Affinity Water Limited on 1 October 2012. The registered number of AWL is 2546950.

### **Regulation and 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 Regulated Company in England and Wales 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 approved by the economic regulator (Ofwat) as well as by drinking water quality and environmental regulations and the terms of its Instrument of Appointment. In each regulatory period, Ofwat sets 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 2010-15 was published by Ofwat on 26 November 2009.

### **2009 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 AMP5. Following the price review, in early 2010, the business carried out an internal review to evaluate opportunities to improve its regulatory and operating performance as part of a wider evaluation of regulated and non-regulated business activities by its then parent company.

During the years 2010-12 the business made improvements in the following areas:

- improved its capital delivery processes to optimise capital expenditure over AMP5;
- achieved its best ever water quality performance in 2010;
- met its leakage target in 2010/11 and 2011/12;
- improved opex (in the sum of £5.5 million (for the period of 2009 to 2012)) and capex efficiency through measures including but not limited to headcount and contractor reductions;
- improved its SIM performance in both 2010/11 and 2011/12; and
- achieved a stable network serviceability assessment in 2011/12 by reducing bursts by around 15 per cent.

In 2012, the business has re-focussed its strategic priorities following the acquisition by Affinity Water Acquisitions Limited. The vision of AWL is to be "The leading community-focussed water company".

In order to be economically successful as a business, management have adopted the following strategic priorities:

- "Demonstrate great asset management";
- "Apply proven technology to drive innovation, effectiveness and efficiency";
- "Provide a highly visible customer experience";
- "Develop a team based, collaborative organisation, delivering commercial performance"; and

- "Obtain a favourable AMP6 determination".

### Strategic Direction

In a document called "*Investing for your community*", AWL is consulting with customers and stakeholders on its strategic plans for the next 25 years applying the feedback from the consultation, AWL intends to publish a strategic direction statement in spring 2013.

In "*Investing for your community*" AWL sets out for consultation four high level customer expectations it proposes to meet:

- **"Making sure our customers have enough water"**
- **"Supplying high quality water you can trust"**
- **"Minimising disruption to your community"**
- **"Providing a value for money service"**

AWL intends to meet these four key expectations both now and in the future by adapting to the evolving environmental and social circumstances over the next 25 years.

### 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 2011/12 is set out below<sup>4</sup>:

Source for abstraction	AWL Central Region (per cent.)	AWL East Region (per cent.)	AWL Southeast Region (per cent.)
Groundwater .....	61.5	83.5	97.7
Surface water	36.0	0	0
<i>of which raw water reservoirs</i> .....	0	16.5	0
Bulk supply from neighbouring water companies .....	2.4	0	2.3

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 groundwater is derived from karstic borehole sources which 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 2 bulk supply export agreements across the AWL Regions. The table below also shows the percentage of existing licence capacity utilised on average in 2011/2012 in respect of the AWL Central Region, AWL East Region and AWL Southeast Region.

<sup>4</sup> AWL, AWE and AWSE were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each company.

	AWL Central Region	AWL East Region	AWL Southeast Region
Source abstraction licences held.....	66	4	15
Utilisation of existing licence capacity .....	65%	65%	55%

AWL along with Anglian Water, has a statutory entitlement to take water from Grafham Water and Ardleigh Reservoir. Grafham Water is owned by Anglian Water while Ardleigh Reservoir is owned jointly by AWL and 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 any 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 2012 approximately 41 per cent., 74 per cent. and 88 per cent. of total households and 86 per cent., 99 per cent. and 97 per cent. of non-households which are 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 2012, the estimated number of customers supplied by AWL in the AWL Central Region, AWL East Region and AWL Southeast Region 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.<sup>5</sup> No single customer accounts for more than 0.4 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, as per the management estimates set out in the table below on the basis of the Regulatory Information for the year ended 31 March 2012 shows the appointed revenue from the water business of AWL in the AWL Central Region, AWL East Region and AWL Southeast Region respectively that year and the extent to which this comprised total revenue in the AWL Central Region, AWL East Region and AWL Southeast Region respectively. There are no inset appointments in the unified AWL area.

	AWL Central Region	AWL East Region	AWL Southeast Region	AWL Aggregate
Customers above WSL competition threshold.....	1800	150	150	2100
Water service revenues for which customers above WSL competition threshold accounted (£ million) .....	25.0	1.4	2.9	29.3
(per cent.) .....	10	9.5	15.2	
Appointed revenue for the water business (£ million) .....	254.805	14.764	19.09	288.659
Appointed revenue to total revenue (per cent.) .....	97.5	97.1	97.1	

### **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 will be used by Ofwat to calculate incentive and penalties at the next price review.

<sup>5</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

The table below sets out the respective SIM scores for AWL Central Region, AWL East Region and AWL Southeast Region from 2011/2012.

<b>Region<sup>6</sup></b>	<b>Quantitative Score (out of 50)</b>	<b>Qualitative Score (out of 50)</b>	<b>Combined Score (out of 100)</b>
AWL Central Region .....	36.47	41.25	77.72
AWL East Region .....	39.41	44.75	84.16
AWL Southeast Region .....	37.66	42.00	79.66

Each water only company and water and sewerage company publishes its SIM score in its risk and compliance statement. In AWL's assessment of all published SIM scores, this score placed AWL 11th in respect of the AWL Central Region, 4th in respect of the AWL East Region and 7th in respect of the AWL Southeast Region out of 21 water only companies and water and sewerage companies.

According to AWL's assessment, the unified combined score for all AWL Regions is 78.16 out of 100.

The table below contains the water supply Approximate Base Statistics for 2011/2012:<sup>7</sup>

<b>Description</b>	<b>Value</b>			
	<i>Properties served (000s)</i>			
	<b>AWL Central Region</b>	<b>AWL East Region</b>	<b>AWL Southeast Region</b>	<b>AWL Aggregate</b>
Properties served .....	1286.056	74.714	76.632	1437.402
- Domestic premises .....	1184.500	68.630	68.884	1322.014
- Unmeasured .....	699.268	17.634	8.426	725.328
- Measured .....	485.232	50.996	60.458	596.686
- Business/non-domestic premises .....	62.489	4.069	4.958	71.516
- Unmeasured .....	8.622	0.034	0.159	8.815
- Measured .....	53.867	4.035	4.799	62.701
- Void Properties .....	39.068	2.015	2.790	43.873

### **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 AMP5, 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 around 1.44 million customers through 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 2000 (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

<sup>6</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

<sup>7</sup> AWL, AWE and AWSE were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each company.



used by Ofwat to assess asset performance. In 2011, performance for the significant indices was as set out in the table below.<sup>8</sup>

Index	AWL Central Region	AWL East Region	AWL Southeast Region	AWL combined score	Industry average
Mean Zonal Compliance.....	99.99	99.91	100	99.98	99.96
Reservoir Integrity Index (per cent.) .....	99.7	100	100	99.98	99.96
Process Control Index (per cent.) .....	99.95	100	100	99.96	99.99
Disinfection Index (per cent.) .....	99.99	100	99.88	99.97	99.97

### 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 12 water quality undertakings in place; 3 relating to water quality schemes identified at PR09, 7 relating to metaldehyde, 1 relating to metaldehyde and clopyralid and 1 relating to iron and manganese.

### Sources of Abstraction

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

Region <sup>9</sup>	Groundwater sources	Impounding reservoirs		River abstractions
		Number	Storage capacity (Megalitres)	
AWL Central Region .....	96	0	0	4
AWL East Region .....	7	1	2,185	0
AWL Southeast Region .....	26	0	0	0
AWL Aggregate .....	129	1	2,185	4

### Water Treatment Works and Water Mains

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

Region <sup>10</sup>	Treatment works		Water mains
	Number	Megalitres of water produced per day	Maintained (km)
AWL Central Region .....	83	812	14,517
AWL East Region .....	2	29	908
AWL Southeast Region .....	16	39	1,115
AWL Aggregate .....	101	880	16,540

<sup>8</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

<sup>9</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

<sup>10</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

Across the AWL region there are four treatment works providing 515 megalitres per day making up 53 per cent. of water produced per day.

For the past two report years AWL has met its Ofwat leakage target with leakage in the report year 2011/12 in respect of the AWL Central Region, AWL East Region and AWL Southeast Region of 158, 4 and 7 megalitres per day, respectively.

On 5 April 2012, VWC and VWSE issued temporary use ban notices (pursuant to section 76 of the WIA), previously known as a "hosepipe ban" in respect of AWL Central Region and AWL Southeast Region, following below average rainfall levels for the last 2 years. The bans were lifted on 9 July 2012 in response to improved groundwater levels. Prior to this, the most recent "hosepipe ban" was in 2006.

## **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 Environment Agency. 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.

The impact of climate change has been incorporated into AWL's water resources management plans 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. Assessment of the supply side has looked at a range of scenarios and these are currently under review in preparation for the next water resources management plan.

### ***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 acquire the business of AWSS 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<sup>11</sup>.

	Performance 2011/2012			Performance 2010/2011			Final Determination Reference Levels 2011/12		
	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	Marginal	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 five-year regulatory period ending 31 March 2015 ("AMP5") is set out below<sup>12</sup>:

	(£ million) (At 2007/08 prices)			
	AWL Central Region	AWL East Region	AWL Southeast Region	AWL Aggregate
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	2.732	25.242
Enhanced Service Level .....	3.16	0.00	0.18	3.34
Total Gross Capital Investment .....	385.64	15.35	36.34	437.33

The following summarises the investments made in respect of each of the AWL Regions, during 2010/11 and 2011/12, representing the first two years of the current asset management period:

	(£ million) (At outturn prices (AWL to confirm))			
	AWL Central Region	AWL East Region	AWL Southeast Region	AWL Aggregate
Maintenance Infrastructure .....	76.41	2.20	3.78	82.39
Maintenance Non-Infrastructure .....	43.65	2.87	5.24	51.76
Quality .....	8.10	0.00	2.79	10.89
Supply/Demand .....	20.95	0.57	3.09	24.61
Enhanced Service Level .....	0.09	0.00	0.03	0.12
Total Gross Capital Investment .....	149.21	5.63	14.92	169.76

### 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 AMP5. 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, the Licence was updated to provide an equivalent consolidated K factor for the remainder of AMP5.

<sup>11</sup> The operating companies for each region were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each region.

<sup>12</sup> AWL, AWE and AWSE were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each company.

Ofwat has recently consulted on a proposed framework for setting price limits for AMP6 and beyond (see Chapter 6 "Regulation of the Water Industry in England and Wales – Regulatory Developments – Proposed changes to Ofwat's approach to future price controls").

## Current Regulatory Performance

### Ofwat Water Supply Performance Measures

The table below sets 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 Summary<sup>13</sup>

	Performance 2011/2012			Performance 2010/2011			Final Determination Reference Levels 2011/12		
	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 <sup>1415</sup> .....	99.99	99.91	100	99.98	100	100	99.99	99.99	99.99
Security of supply (annual average) <sup>16</sup> .....	100	100	100	100	100	100	100	100	100
Leakage (MI/d) .....	158	4.3	7.1	181	5.0	7.2	185	5.1	7.8
Mains bursts (per 1,000km).....	243	90	86	292	69	88	238	85	90
Properties receiving low pressure (nr) .....	90	0	9	148	0	7	250	0	2
Properties experiencing unplanned supply interruptions <sup>17</sup> .....	1.01	0.01	0.00	0.69	0.00	0.00	0.25	0.00	0.00

*Drinking Water Quality:* AWL has maintained a high level of compliance with mandatory EU and UK drinking water quality standards. During 2011, 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., 99.91 per cent. and 100 per cent. respectively in the year ended 31 December 2011. The combined mean zonal compliance was 99.98 per cent., which is above the industry average of 99.96 per cent.

*Leakage control and security of supply:* Despite challenges in the year due to the 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 state 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 into the future. Serviceability is deemed to be stable when a range of service indicators demonstrate that the performance is in line with the reference level of service and, by inference, is likely to remain so in the future.

AWL's own assessment of the below ground infrastructure network during 2011/12 is that it is stable.

AWL's own assessment of the serviceability of its above ground assets is that it is 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 2011/12, the bad debt charge in respect of the AWL Central Region, AWL East Region and AWL Southeast Region amounted to 2.2 per cent. 3.2

<sup>13</sup> AWL, AWE and AWSE were unified with effect from 27 July 2012. These figures show individual pre-unification figures for each company.

<sup>14</sup> DWI mean zonal compliance measures.

<sup>15</sup> Performance relates to calendar years 2011 and 2010.

<sup>16</sup> The Security of Supply Index assesses a water company's ability to supply water to customers in drier years.

<sup>17</sup> 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).

per cent. and 3.5 per cent. of water service revenue, respectively. 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. Ofwat has retained bad debts as a notified item in AMP5 which limits AWL's exposure to bad debt risk.

In January 2012, the Government launched a consultation on the costs of bad debt to the industry ("*Tackling Bad Debt in the Water Industry*"). The consultation stated that the Secretary of State for the Environment will come to a decision after considering all responses although no timetable has been set.

### **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**

AWL currently participates in the Veolia UK Pension Plan (the "**VUKPP**"). The VUKPP 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 new members have only been eligible to join the DC section.

In due course, the benefits of employees and former employees of AWL, and its predecessor companies, will be transferred into the new Affinity Water Pension Plan, which is currently being established.

### **Litigation/Actions**

AWL is not, and has not been, involved in any litigation or arbitration proceedings which have, may have or have had, within the period of 12 months preceding the date of this Prospectus, 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 FSA'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 is 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.

### **DIRECTORS**

#### **Joint Chairmen**

##### ***Kenton Bradbury***

Kenton Bradbury is a Director of Infracapital and focuses on the asset management of investments, having joined in January 2009. Prior to joining Infracapital, he was Senior Vice President in Infrastructure & Regulation for E.ON based in Germany, where he helped to develop infrastructure strategy and to monitor regulatory developments across E.ON's operations in several geographies. He holds a First class honours degree from Cambridge University and attended Harvard's three month management development programme.

##### ***James Wilmott***

James (Jim) Wilmott is Managing Director, Head of Europe and Co-Head of Morgan Stanley Infrastructure. He has been investing in principal transactions since 1996 across a range of asset classes and geographies. Prior to his London appointment, he was Deputy Head of the Principal Investment Department that oversaw Princes Gate Investors, a series of global special situations equity funds that focused on growth and bridge equity, minority investments and structured equity investments. He holds an M.B.A. from the Harvard Business School where he graduated with distinction. In addition, he received his A.B. in Economics from the University of North Carolina at Chapel Hill where he was a Morehead Scholar.

#### **Executive Directors**

##### ***Duncan Bates***

Duncan Bates is Chief Financial Officer of Affinity Water Limited, 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 Buscombe was appointed director of AWL in 2006. She 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 member of the House of Lords European Select Committee responsible



for infrastructure, employment and the Single Market, a parliamentary delegate on the Council of Europe (effective January 2013) and Chairman of the Advisory Board for the Samaritans.

### ***Jeffrey Herbert***

Jeffrey Herbert was appointed director of AWL in 2012 having previously been chairman of Veolia Water East Limited. He is an industrialist who has held CEO 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.

### ***Fiona Woolf CBE***

Fiona Woolf was appointed director of AWL in 2006. She is a member of the Competition Commission, a partner with CMS Cameron McKenna and trustee of Raleigh International. Fiona Woolf is an Alderman of the City of London and a former president of the Law Society.

### **Non-Executive Directors**

#### ***Antonio Botija***

Antonio Botija 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 & Transport Group of UBS Investment Bank in London, where he was a financial advisor on infrastructure projects and transactions across many sectors including roads, railroads, airports, ports and airlines. He holds degrees in Business Administration and Economics and in Law, both from ICADE (Spain). He also holds an MBA degree from INSEAD (France/Singapore) and the Chartered Financial Analyst (CFA) designation.

#### ***Andrew Dench***

Andrew Dench is Chief Financial Officer and Deputy Chief Executive Officer of Veolia Water UK PLC, Ireland and Northern Europe having joined the business in June 2010. He studied at Oxford and Glasgow Universities as well as Strathclyde Graduate Business School and prior to joining Veolia Water UK he spent more than 15 years working in corporate finance advisory with Morgan Stanley, and more latterly, with Credit Suisse.

#### ***Alberto Donzelli***

Alberto Donzelli is an Executive Director at Morgan Stanley Infrastructure focusing on Europe investing activities with over 12 years of experience in principal investing and mergers & acquisitions across a broad range of infrastructure sectors. Prior to joining Morgan Stanley Infrastructure, he worked in the investment banking groups at Credit Suisse and UBS, where he was part of the European Utilities Group. He holds a degree from Bocconi University in Milan, Italy.

#### ***Deven Karnik***

Deven Karnik is a Managing Director based in Hong Kong at Morgan Stanley Infrastructure. He has over 17 years of experience in principal investing and mergers & acquisitions across a broad range of infrastructure sectors including water, electricity, gas, ports, airports, and toll roads. Prior to joining Morgan Stanley in 2009, he spent 11 years with Dresdner Kleinwort based in London, Hong Kong and Mumbai, most recently as Managing Director and Head of Asia Power and Utility. He is a member of the Institute of Chartered Accountants in England and Wales and a graduate of Sydenham College of Commerce and Economics in Mumbai.

#### ***Mathieu Lief***

Mathieu Lief joined Infracapital in 2007 and is a Director primarily responsible for investment origination and execution. He has held several advisory roles in the infrastructure sector in the UK and France.

Prior to joining Infracapital, he was a Senior Vice President in the London utility advisory team of Dresdner Kleinwort where he advised on a large number of public and private transactions involving

utility assets for various infrastructure funds. He holds a Masters degree in Accounting and Finance from the University of Birmingham and a Masters degree in International Economics and Finance from the University of Bordeaux. He is also FSA CF-30 approved.

#### ***Yacine Saidji***

Yacine Saidji is a Vice President at Morgan Stanley Infrastructure focusing on European investing. Prior to joining Morgan Stanley Infrastructure, he worked in the investment banking division focusing on advisory in the context of mergers and acquisitions in the transport and energy sectors. Prior to joining Morgan Stanley in 2006, he spent three years at McKinsey & Company advising clients in the energy sector. He is a graduate of INSEAD where he obtained an MBA, the Ecole Polytechnique Fédérale de Lausanne where he obtained an MSc in Computer Science and the Ecole d'Ingénieurs de Genève where he obtained his BSc in Microengineering.

#### ***Bernd Schumacher***

Bernd Schumacher joined Infracapital as an Associate Director in 2008 and is responsible for investment origination and execution. Previously, he worked for the mid-market private equity fund Dawnay Day Principal Investments and KPMG's Transaction Services teams in Munich and London. He is a qualified Chartered Certified Accountant (ACCA) and holds an MBA degree from INSEAD.

Other than Fiona Woolf's membership of the Competition Commission, there are no potential conflicts of interest between any duties to AWL of its directors and their private interests or duties.

#### **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 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 this Prospectus**

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 £26,505,782.4 divided into 265,057,824 ordinary shares. The Programme Issuer and the Existing Issuer are the only subsidiaries of AWL (except for certain dormant companies). AWL's auditors are Ernst & Young LLP whose address is 1 More London Place, London, SE1 2AF. Ernst & Young 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 good corporate governance and in particular with those of Condition P.

The composition of the board of directors complies with this requirement and the board currently comprises twelve 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 the Group's system of internal controls and for reviewing its effectiveness in particular in respect of compliance with health and safety regulations. The board is

responsible for reviewing the ongoing process for identifying, evaluating and managing the risks faced by the Group in accordance with Revised Guidance for Directors on the Combined Code (the Turnbull guidance).

## 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 8350099.

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 £1 divided into 1 ordinary share. 1 ordinary share has been issued, it has been fully paid up. AWHL is a special purpose vehicle set up as a holding company and with effect from the Closing Date, its direct and indirect subsidiaries will be AWL, the Programme Issuer and the Existing Issuer, respectively. AWHL's auditors are Ernst & Young LLP whose address is 1 More London Place, London, SE1 2AF. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants of 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
- Kenton Bradbury
- Andrew Dench
- Alberto Donzelli
- Mathieu Lief
- 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 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, 10,000 of which are issued and 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 has been 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 Ernst & Young LLP whose address is 1 More London Place, London, SE1 2AF. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales. Since the date of its incorporation, the Programme Issuer has not commenced operations and no financial statements of the Programme Issuer have been made up as at the date of this Prospectus.

### 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
- Richard Bienfait
- Andrew Dench
- Alberto Donzelli
- Mathieu Lief
- 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) LIMITED

### Introduction

Affinity Water Finance (2004) Limited (previously known as Veolia Water Central Finance PLC) was incorporated under the Companies Act 1985 and registered in England and Wales on 27 May 2004 as a public limited company under number 5139236.

The registered office of the Existing Issuer is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. The Existing Issuer's authorised share capital is £50,000 divided into 50,000 ordinary shares. 50,000 ordinary shares have been issued, all of which have been fully paid up. Affinity Water Limited owns 50,000 shares. The Existing Issuer is a special purpose vehicle for the purpose of issuing asset backed securities. The Existing Issuer was set up for raising funds to support the long-term debt financing requirements of AWL. The Existing Issuer's auditors are Ernst & Young LLP whose address is 1 More London Place, London, SE1 2AF. Ernst & Young LLP is registered to carry out audit work of the Institute of Chartered Accountants of England and Wales.

### Directors and Company Secretary

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

<b>Directors:</b>	Duncan Bates
	Richard Bienfait
	Kenton Bradbury
	Alberto Donzelli
	Andrew Dench
	Mathieu Lief
	Yacine Saidji
<b>Company Secretary:</b>	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 Existing Issuer of its directors and their private interests or duties.

The Existing Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by AWL. The Existing Issuer has issued one Sub-Tranche of Bonds.

The Existing 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 Existing 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 10 water only companies which are Regulated Companies. There are also currently six holders of inset licences, and seven water supply licence holders, who have been appointed under the inset and water supply licensing regimes to supply certain specific sites within England and Wales. 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 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 Quality 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.

## **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 Competition Commission (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 Competition Commission.

A modification reference requires the Competition Commission 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 Competition Commission 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 Competition Commission'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 Competition Commission 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 Competition Commission that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the Competition Commission 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. The current Government has also indicated in the Water White Paper, published in December 2011 that it is working with Ofwat to explore the case for such changes and will continue to support Ofwat and the industry in this work (see section "*Regulatory Developments – Draft Water Bill*" below).

The Competition Commission (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) *Proposed modifications to the instrument of appointment*

In December 2011, Ofwat issued a notice to modify the conditions of appointment of water companies, pursuant to section 13 of the Water Industry Act 1991 (the "**Section 13 Notice**"). The Section 13 Notice stated that Ofwat wanted to change water companies' instruments of appointment to make them more flexible in terms of the way price limits are set.

If Ofwat's proposed changes had been made, Ofwat would have been able to determine the number, form, nature and length of controls at each price determination. In particular, the price adjustment formula of RPI + K would have been removed from a company's instrument of appointment, although Ofwat had indicated that it would maintain RPI indexation for the wholesale price control.

The instrument of appointment modifications were proposed in the context of Ofwat's move to reform how it undertakes price controls and regulation of water companies more generally (see

*"Regulatory Developments – Proposed changes to Ofwat's approach to future price controls"* below), though the modifications did not (by themselves) determine the price control regime for Price Review 2014 or other future price determinations.

AWL responded to Ofwat's Section 13 Notice on 29 February 2012 where it stated, amongst other things, that the scope of the proposed changes was too wide and that Ofwat should focus on changes for Price Review 2014 rather than such longer term changes which should not require licence amendments at this stage. AWL stated that "it does not wish to delay progress in designing the separate 'wholesale' and 'retail price limits'" but that it does "not support a move away from RPI-based price controls."

On 26 October 2012, Ofwat issued a notice under section 13 of the Water Industry Act 1991 (the "**October Section 13 Notice**"), proposing modifications to the instruments of appointment of water companies which, if implemented, would have allowed for changes to be made by Ofwat to the way in which price controls are set including enabling Ofwat to redesignate activities from the wholesale to retail price controls.

On 12 November 2012, Defra issued a draft Strategic Policy Statement (the "**Statement**") to Ofwat for consultation. In the Statement, Defra states: "*it is the Government's responsibility to set the strategic framework and policy priorities within which economic regulators such as Ofwat operate.*" Defra also highlighted that one of Ofwat's primary duties under Section 2 of the WIA is to ensure that water only and water and sewerage undertakers are able to "*finance their functions, in particular by securing reasonable returns on their capital*". Following Defra's Statement and prior to the closing date of the October Section 13 Notice, Ofwat issued a further clarification paper on its proposed modifications to instruments of appointment, acknowledging its Section 2 duty to ensure that efficient undertakers are able to properly finance their functions.

AWL responded to the October Section 13 Notice on 23 November 2012 stating that while it is "supportive of reform that delivers clear benefits to customers", AWL was "concerned that the level of flexibility sought by Ofwat in the October 2012 Section 13 Notice introduces significant changes to the regulatory system that risk unsettling investor confidence in the stability of the water sector, inhibiting efficient investment and increasing the cost to customers". As such, AWL felt unable to consent to the October Section 13 Notice.

On 21 December 2012, after a further period of consultation with each undertaker, Ofwat issued a third Section 13 notice (the "December 2012 Section 13 Notice"). In response to industry concerns over the level of flexibility, the modifications proposed are restricted to:

- (i) splitting price controls for "wholesale" and "retail" activities;
- (ii) retaining the RCV+/-K formula on a five-yearly AMP Period basis for wholesale activities;
- (iii) allowing flexibility for Ofwat to determine the number and form of price controls in respect of retail activities;
- (iv) allowing price control periods for retail activities to be "up to" five year periods (so allowing shorter periods); and
- (v) including an "all reasonable endeavours" obligation on the undertaker in the Licence to oblige it to work constructively and co-operatively with Ofwat to develop targeted price controls.

Moody's issued an announcement following the December 2012 Section 13 Notice stating that in its view the proposed changes were "credit positive for the [English water] sector" given that it reduces uncertainty about changes to be made to the regulatory regime in the near terms and also shows stronger co-operation between the parties involved.

On 16 January 2013, AWL responded to the December 2012 Section 13 Notice stating that it accepted the proposed licence modifications. The licence modifications are expected to be implemented in February 2013.

### ***Enforcement Powers***

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 in the relevant 12 month period if it has failed or is continuing to fail to comply with its instrument of appointment conditions, standards of performance or other obligations. A penalty may not be imposed later than 12 months 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 or a Shipwreck Clause. 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.

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 periodic price caps (determined by the Periodic Reviews) imposed on the amounts Regulated Companies can charge to 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. Ofwat recently consulted on a proposed framework for setting price limits after that date (see section "*Regulatory Developments – Proposed changes to Ofwat's approach to future price controls*" below).

### ***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***

Ofwat has 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 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.

### ***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 Changes of Circumstance 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.

### ***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 which cannot take effect unless approved by Ofwat and must comply with any requirements prescribed by the Secretary of State for the Environment by regulations. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

### ***References to the Competition Commission***

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 Competition Commission for determination by it after making an investigation. The Competition Commission 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 Competition Commission are binding on Ofwat. Bristol Water plc was the only company in the most recent Periodic Review to refer its Final Determination to the Competition Commission.

### ***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 – Draft Water Bill*" 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 OFT has a duty to refer to the Competition Commission, 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 Competition Commission 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 Competition Commission 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 Competition Commission takes the final decision on remedial action, and this decision can be appealed to the CAT 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

Competition Commission 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 OFT as well as Ofwat. The OFT has the power to investigate any merger within the jurisdiction of the United Kingdom. The OFT must refer a transaction to the Competition Commission for further investigation if the transaction 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 OFT will consult with Ofwat.

A DEFRA consultation on proposed changes to the special water merger regime, including proposals to increase the threshold at which mergers are automatically referred by the OFT to the Competition Commission from the current level of £10 million, closed on 28 June 2012. Responses from the consultation have not yet been published and no timetable has been set for further actions.

## **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.

A further key theme of the Water White Paper was to increase competition in the water sector. Proposals for achieving this 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. To further increase competition, proposals set out in the Water White Paper also centred on facilitating the entry of new market participants by reforming existing pricing rules for new entrants, harmonising regulation to create unified codes for operating standards and aligning these to create a market with Scotland and introducing licences for the provision of network services (such as water treatment and sewerage). 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 Water White Paper also includes proposals to reform the abstraction licence regime and use of water resources (including interconnection between undertakers and the trading of bulk supplies) and address water efficiency, quality and affordability.

The Water White Paper deviates in places from Martin Cave's recommendations in his review, "Independent Review of Competition and Innovation in Water Markets", recognising the clear imperative for the water sector to "remain an attractive prospect for long-term investors if the cost of capital, and the cost to customers, is to remain affordable". In particular, the Government has "decided not to take forward the proposal for separation of the retail businesses of water companies that was proposed by the Cave review", as the Government does not want to "introduce changes that risk unsettling investor confidence".

### ***Draft Water Bill***

On 10 July 2012, the Government published a draft Water Bill (the "**Draft Water Bill**") for pre-legislative scrutiny. The Draft Water Bill aims to implement the legislative changes set out in the Water White Paper to strengthen the water sector's ability to respond to the challenges of a growing population and less certain water supplies and also to offer consumers more choice by enabling them to switch water and sewage suppliers easily through the removal of existing regulatory barriers for new entrants to the market.

The Draft Water Bill is intended to modernise Ofwat's regulatory powers to allow it to continue to regulate the industry in the interests of consumers and would extend 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.

The measures in the Draft Water Bill 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.

It is expected that during the period of pre-legislative scrutiny the legislative proposals contained in the Draft Water Bill will be subject to further refinements. Following the conclusion of consultation on the Draft Water Bill it is expected that the Water Bill will be introduced into Parliament, however no timetable has been given for this to occur.

#### ***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. This means that holders of water supply licences are now permitted to supply customers using in excess of 5 megalitres per annum.

In the Water White Paper, the Government has stated it will "deregulate further in a future Water Bill by reducing the threshold to zero so that any non-household customer can tender their water and sewerage services", but no timetable has been given.

#### ***Proposed changes to Ofwat's approach to future price controls***

On 23 November 2011, Ofwat published "*Future price limits – a consultation on the framework*" as part of its proposed framework for setting price limits.

In the consultation, Ofwat stated that its overall aims in the Future Price Limits consultation are to streamline the price review process, making companies more accountable for their actions and increasing their choice through a lighter-touch regulation.

Following the consultation, in May 2012, Ofwat published the FPL Principles, which set out high-level principles which will guide how it sets price limits for Price Review 2014 and in the longer term. Ofwat said in the FPL Principles that there continue to be a number of questions to be addressed (for example as regards the precise scope and form of the separate wholesale and retail price controls). Ofwat proposes to continue to engage with stakeholders in respect of these outstanding issues with a view to consulting on the details of its price control methodology for Price Review 2014 and is expected to issue a response in January 2013.

The FPL Principles indicate that future Price Reviews will:

- (a) set two separate price controls for retail and wholesale, rather than a single price control. Ofwat has stated that both price controls will be for a period of five years from April 2015;
- (b) set a separate sub-price limit within the wholesale control, but excluding water resources. Ofwat has indicated that this will be "non-binding" for Price Review 2014;
- (c) regulate outcomes with appropriate measures of success and incentives, rather than outputs. This would prioritise the longer term results which companies deliver, when monitoring their performance, ensuring that the issues of greatest importance to customers are taken into account;
- (d) have greater customer engagement, with Ofwat expecting companies to engage with their customers in setting the outcomes to be achieved;
- (e) use a total expenditure ("**totex**") approach for cost assessment, cost recovery and incentives for the wholesale price control, rather than maintaining the current distinction between capex and opex;
- (f) introduce incentives to abstract water sustainably and increase water trading; and
- (g) introduce incentives to optimise the operation of the water network.

## **Customers' Interests**

### ***General***

Ofwat is responsible for protecting the interests of customers. It monitors the performance and level of service of Regulated Companies and the implementation of a "guaranteed standards scheme" in respect of customer care.

### ***Consumer Council for Water***

The Water Act introduced the independent CCW, whose role is to provide information of use to consumers and to promote the interests of all water consumers. The future role of the CCW is being considered as part of the Gray Review (which reported to ministers in March 2011).

### ***Service Incentive Mechanism***

Ofwat introduced the SIM customer performance assessment 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 will not be used to derive financial incentives. This is to allow sufficient time to ensure comparisons are robust.

Ofwat will calculate incentives at the next price review based on average performance over the years 2011/12, 2012/13 and 2013/14.

### ***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.

## 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**") will be 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) will 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 will be 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 will 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 Existing 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.

#### *Modifications, Consents and Waivers*

The Transaction Agent shall be 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 right 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 will contain 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 Existing Issuer Bonds, the Existing Bond 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 shall apply, *mutatis mutandis*, to the Class B Debt Instructing Group and the Class B DIG Representatives.

The following persons shall 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 Common Terms Agreement.

***Bondholder Voting***

In respect of any Voting Matter, each of the Bondholders shall be entitled to direct the bond trustee to vote on its behalf as its Secured Creditor Representative in accordance with the voting procedures set out in the relevant bond 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 Bondholders (a "**STID Direct Voting Matter**"), the Bondholders, as the case may be, may instruct the Bond Trustee without convening a Bondholder Meeting. 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 Bondholders, a Bondholder Meeting will be convened.

In respect of any STID Direct Voting Matter, direction given by the relevant Bondholder within the timeframes specified in the Bond Trust Deed, shall be binding on the Bond Trustee, and the Bond Trustee shall cast a vote accordingly on behalf of such Bondholder in respect of the relevant Voting Matter pursuant to the terms of the STID. Votes in respect of the relevant Class/Sub-Class 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 Bond, 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, where a Bondholders Meeting is called, votes of the relevant Bondholders against such Entrenched Rights Matter shall be cast in an amount equal to the entire Principal Amount Outstanding of the relevant Class of Bonds. Only an Extraordinary Resolution passed by any Class of Bondholders shall be treated as a vote in favour of the relevant STID Proposal giving rise to the Entrenched Rights affecting the relevant Class of Bondholders.

For so long as any Senior Debt is beneficially owned by or on behalf of the Programme Issuer, the Existing 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 Existing Issuer Bondholders under the Existing Issuer Bond Trust Deed.

#### ***Hedging Counterparties***

Each Hedging Counterparty 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 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 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 Closing Date, there will be 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 Bonds or 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) 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 Existing 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 Existing 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 Existing 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 Existing 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 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Qualifying Class A Debt) Class B DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class B Debt vote (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 Existing 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 Existing 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 33⅓ 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 Existing 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 Existing Issuer will create first fixed charges over the Excluded Accounts in favour of the Security Trustee, the STID will provide 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**") will be 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 will be 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 will require 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 will also contain provisions restricting the rights of Subordinated Creditors in respect of any Subordinated Debt of an Obligor from time to time. The STID will contain 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 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 Bondholders, an Extraordinary Resolution in favour of such proposal must be passed at a Bondholders Meeting in accordance with the Bond Trust Deed. For the avoidance of doubt, individual Bondholders shall not be entitled to assert an Entrenched Right other than through the Bond Trustee. The same protections will be available to the Existing Issuer 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 will 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 will 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 Existing Issuer Bond Trustee and the Hedging Counterparties will also have certain Reserved Matters under the STID in relation to the matters that affect them more than other Secured Creditors.

#### ***Substitution of the Programme Issuer***

The Bond Trust Deed will provide for the procedure of substitution of the Programme Issuer (or any substituted Programme Issuer) in certain circumstances.

#### **Intercompany Loan Arrangements**

##### ***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. The business of AWL demonstrates the capacity to produce funds to service any payments due and payable under the Programme Issuer/AWL Loan Agreements.

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.

### ***Existing Issuer/AWL Loan Agreements***

All Financial Indebtedness raised by the Existing Issuer from time to time (and as at the Closing Date representing Financial Indebtedness incurred by the Existing Issuer through the issue of the Existing Issuer Bonds on their issue date prior to the date of this Prospectus), excluding the raising of debt under DSR Liquidity Facilities will be backed by an aggregate nominal amount of debt owed by AWL to the Existing Issuer under a loan agreement (the "**Existing Issuer/AWL Loan Agreement**"). The advance made by the Existing Issuer to AWL prior to the Closing Date will correspond to the principal amount of the Existing Issuer Bonds outstanding as at the Closing Date and will be reflected in the initial Existing Issuer/AWL Loan Agreement to be entered into by the Existing Issuer and AWL on the Closing Date and documenting the existing arrangements between the Existing Issuer and AWL in respect of such amounts.

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

The advance made by the Existing Issuer under the Existing Issuer/AWL Loan Agreement applicable to the Existing Issuer Bonds 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 Existing 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 Existing Issuer Bonds. Interest on each advance made under an Existing Issuer/AWL Loan Agreement will accrue from the date of such advance. The advance made under the initial Existing Issuer/AWL Loan Agreement will be repayable on the same date as the Existing Issuer Bonds.

### ***Fees Generally***

The Programme Issuer is responsible for paying the properly incurred fees and expenses of, amongst others, the Bond Trustee, the Paying Agents, the Registrar, the Transfer Agents, the Agent Bank, the Bond Trustee's legal advisers and the Programme Issuer's legal advisers and the Arranger's legal advisers and certain fees due to the DSR Liquidity Facility Provider (together with the Existing Issuer). On the Closing Date, AWL will pay to the Programme 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 Programme Issuer in connection with the establishment of the Programme and the entry into the Programme Issuer/AWL Loan Agreement.

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

In respect of the period after the Closing Date, 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 Existing Issuer/AWL Loan Agreements pay to the Existing Issuer amounts equal to the amounts required by the Existing Issuer to pay its ongoing fees and expenses under or in connection with the Existing Issuer Bonds and its tax liabilities as they fall due (together with an annual amount of £1,000 to be retained by the Existing 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 Existing Issuer Bond Trustee, the Principal Paying Agent, the Transfer Agent, the Registrar and others will enter 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 will apply to each Authorised Credit Facility (including, for the avoidance of doubt, the Programme Issuer/AWL Loan Agreements and the Existing 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 will be 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 will further provide that no representation, covenant, Trigger Event or Event of Default will be breached or triggered as a result of the Permitted Post Closing Events (including, but not limited to, the payments of all amounts outstanding under the Acquisition Term Facility, certain transaction fees not paid on the Closing Date (if applicable) and any other payments as may be agreed by AWL and the Security Trustee in writing).

The CTA will allow 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) have been affirmed by all Rating Agencies then rating the Bonds (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 to be downgraded below the relevant ratings set out in the definition of Rating Requirement by such Rating Agency).

The CTA will also set out the cash management arrangements to 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 will be 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 will make 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 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 the 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 Existing Issuer will represent that its activities have been 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 Existing Issuer Bonds (in the case of the Existing 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 will contain 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.

#### ***Information Covenants***

- (i) AWL will undertake 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 Obligor 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) will undertake 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 will undertake, 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 Existing 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 will undertake, 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 will undertake, 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 Existing Issuer*

Additionally, each of AWL, the Programme Issuer and the Existing Issuer will 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 Bonds (or, in the case of the Existing Issuer, the Existing Issuer 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 Existing 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 Existing 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)(i) 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 Existing Issuer*

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

- (i) *Restricted Business of the Programme Issuer and the Existing 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 Existing Issuer Bonds 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 Existing Issuer Bonds are outstanding;
- (iii) *Notification of non-payment and late payment*: to procure that the relevant Principal Paying Agent notifies the Bond Trustee or the Existing Issuer Bond 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 Existing Issuer Bonds, as the case may be, on or before the due date for such payment, and to give notice to the relevant Bondholders or the Existing Issuer Bondholders (as applicable) if any sum due in respect of the relevant Bonds or the Existing Issuer Bonds (as the case may be) is paid after the due date for such payment;
- (iv) *Notices to Bondholders and Existing Issuer Bondholders*: to give notice of certain events to the Bond Trustee and Bondholders or the Existing Issuer Bond Trustee and Existing Issuer Bondholders, as the case may be, in relation to payments in respect of the Bonds and the Existing Issuer Bonds, respectively; and
- (v) *Liability to Tax*: to give notice to the Security Trustee and/or the Bond Trustee and/or the Existing Issuer Bond Trustee promptly upon becoming aware of deduction or withholding of tax in respect of payments due in respect of Bonds or any Existing Issuer Bonds (as the case may be), becoming subject to tax on a basis which is materially different than that assumed in AWL's 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 Existing Issuer Bonds from each of the Rating Agencies.
- (ii) Each of AWL, the Programme Issuer and the Existing 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 will set out certain Trigger Events which will 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 Existing 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 Existing 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 Existing 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 Existing Issuer Bonds);
- (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 will contain a number of events of default (the "**Events of Default**") which will be 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 will 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 (i) 0.1 per cent. of RCV; or (ii) £1,000,000 (indexed) (or its Equivalent Amount);
- (v) any amount of its Financial Indebtedness in excess of (i) 0.1 per cent of RCV; or; (ii) £1,000,000 (indexed) (or its Equivalent Amount): (i) is declared due and payable prior to its specified maturity, or (ii) 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 will provide 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 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).

### **Conditions Precedent**

The conditions precedent to among other things the signing of the CTA, the Closing Date and to the issue of Bonds after the Closing Date will all be set out in a conditions precedent agreement (the "**CP Agreement**") as agreed between, among others, the Bond Trustee, the Security Trustee and the Obligors.

## 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 Existing 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 Existing 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 shall open and maintain one chequing account only with the Account Bank.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "**Accounts**". Each of the Accounts (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) will be 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 shall be 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 shall 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 Existing 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 will 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***

AWL shall direct that, on the Closing Date, an amount equal to the PTP Amount will be paid into the Debt Service Payment Account. The Programme Issuer shall direct 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 shall be applied in accordance with the Settlement and Acknowledgment 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, shall be 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 shall, promptly upon being credited to the Debt Service Payment Account, be applied in accordance with the Settlement and Acknowledgment Deed.

AWL shall 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 Existing Issuer or AWL under any Interest Rate Hedging Agreement, the Programme Issuer/AWL Loan Agreement or Existing 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 Existing 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 Existing Issuer shall be treated as simultaneously having discharged AWL's corresponding obligation to pay on such Payment Date to the Programme Issuer or the Existing Issuer under any Programme Issuer/AWL Loan Agreement or the Existing 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 Existing Issuer;
- (b) the payment of any retained margin or fee of the Programme Issuer under the Programme Issuer/AWL Loan Agreements and the Existing Issuer under the Existing 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 Existing 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 Existing Issuer Bond 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 Existing 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 (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 Existing 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 Existing 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 Existing 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 transferrable 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 shall be 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 Existing 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 Existing 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 will 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 Existing 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 Existing 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 Existing 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 Existing Issuer will be 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 will 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);
- (e) any deposit made with the Account Bank; or
- (f) any Bonds or Existing Issuer Bonds 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 agrees that it 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 Existing 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***

Each Obligor, on the Closing Date, will enter into the security agreement (the "**Security Agreement**") with the Security Trustee pursuant to which AWHL will guarantee the obligations of each other Obligor under the Finance Documents and AWL, the Programme Issuer and the Existing Issuer will guarantee 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 will secure 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 will be subject to the WIA, the Instrument of Appointment and requirements thereunder.

The Security Agreement, to the extent applicable, will incorporate the provisions of the CTA and will be subject to the STID.

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

- (i) first fixed charges over:
  - (a) the shares in AWL, the Programme Issuer and the Existing 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 will 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 will be 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 will be 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 Existing Issuer and AWL will be 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 will be limited to AWL; the Programme Issuer will only be permitted to issue Bonds, enter into DSR Liquidity Facilities and Hedging Agreements; and the Existing Issuer will only be permitted to enter into DSR 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 will constitute Authorised Credit Providers as at the Closing Date.

AWL has entered into a commitment letter with a UK investor pursuant to which, and subject to satisfaction of certain conditions precedent, the Programme Issuer will issue a £95 million (approximately

10 per cent. of RCV) tranche of Class B Debt. Such Class B Debt (which will not be issued as Bonds under the Programme) is expected to be issued and privately placed with the UK investor on or around the Initial Issue Date.

### ***Liquidity Facilities***

#### ***Liquidity Facilities – General***

AWL, the Programme Issuer and the Existing Issuer will be 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 Existing 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 Existing 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. As at the date of this Prospectus, the short-term rating of The Royal Bank of Scotland plc as Liquidity Facility Provider is F1 by Fitch, P-2 by Moody's and A-1 by S&P.

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 Existing 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 provides an affirmation of the then current ratings of the

Bonds 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 will not be downgraded.

No Liquidity Facility Provider shall be obliged to make facilities available if (i) the Programme Issuer or the Existing 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 Existing 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 Existing 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 Existing 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 Existing 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 Bonds.

### ***DSR Liquidity Facilities***

Each of AWL, the Programme Issuer and the Existing Issuer will agree 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 5 years after the renewal date on which such DSR Liquidity Facility Provider first declined to accept the renewal request.

### ***O&M Reserve Facility***

AWL shall 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 will 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 will accede to the CTA and/or the STID.

### **Hedging**

The CTA will provide 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 Existing Issuer.

The Financing Group's actual exposure to interest rate and currency risk will be 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 or about the Closing Date, AWAL's rights and obligations in respect of the Existing Swap Transactions will be transferred by way of novation to AWL and will constitute the Interest Rate Hedging Transactions in respect of Class A Debt for the purposes of the CTA and the STID and shall be Super-Senior Interest Rate Hedging Transactions. In connection with the novation, the Existing Hedging Counterparties will, on or about the Closing Date, accede to the CTA and the STID as Hedging Counterparties. No payment will be made by AWL to any of the Existing Hedging Counterparties in connection with such novation of the Existing Swap Transactions.

### ***Hedging Policy***

Neither AWL 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 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 Existing 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 Existing 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 Existing 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 Existing 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 Existing Issuer, as the case may be, to make payment when due;
- (b) certain insolvency events affecting AWL, the Programme Issuer or the Existing 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 Existing 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 Existing 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 Existing 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 Existing 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 Existing 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 will agree 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) will manage 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 will make representations and will 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 will give 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**") will 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 will undertake 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) will, under the Tax Deed of Covenant, incur 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) will, as at the Closing Date, be comprised of certain members of the Affinity Group, including AWL and AWAHL. 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 will 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 BONDS

### Terms and Conditions of the Bonds

*The following is the text of the terms and conditions which (subject to the provisions of the relevant Final Terms or Drawdown Prospectus (as defined below) and, save for the italicised paragraphs) will be incorporated by reference into each Global Bond (as defined below) representing Bonds (as defined below) in bearer form, Bonds in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, each Registered Bond (as defined below) in global form (a "Registered Global Bond") representing Bonds in registered form and each Registered Bond in definitive form (a "Definitive Registered Bond") representing Bonds in registered form (only if such incorporation by reference is permitted by the rules of the relevant Stock Exchange and agreed by the Programme Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Definitive Registered Bond representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Final Terms or Drawdown Prospectus which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Programme Issuer/AWL Loan Agreement. References in the Conditions to "Bonds" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.*

Affinity Water Programme Finance Limited (the "**Programme Issuer**") has established a guaranteed bond programme (the "**Programme**") for the issuance of up to £2,500,000,000 guaranteed bonds (the "**Bonds**"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "**Series**"), and each Series comprises one or more Classes of Bonds (each a "**Class**"). Each Class may comprise one or more sub-classes (each a "**Sub-Class**") and each Sub-Class comprising one or more tranches (each a "**Tranche**").

Bonds issued by the Programme Issuer will be designated as "**Class A Bonds**" or "**Class B Bonds**" and will represent "**Class A Debt**". Each Sub-Class will be denominated in different currencies or will have different interest rates, maturity dates or other terms. Bonds of any Class may be fixed rate bonds ("**Fixed Rate Bonds**"), floating rate bonds ("**Floating Rate Bonds**"), index-linked bonds ("**Indexed Bonds**") or instalment bonds ("**Instalment Bonds**") depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("**Conditions**") completed by a set of final terms in relation to such Sub-Class (a "**Final Terms**") or a drawdown prospectus (a "**Drawdown Prospectus**"). In the event of any inconsistency between these Conditions and the relevant Final Terms or Drawdown Prospectus, the relevant Final Terms or Drawdown Prospectus (as applicable) shall prevail.

Reference to "**Final Terms**" or "**Drawdown Prospectus**" is to the Final Terms or, as the case may be, Drawdown Prospectus (or the relevant provisions thereof) applicable to the Bonds.

The Bonds will be subject to and will have the benefit of a trust deed dated the Closing Date (as defined below) (as amended, supplemented, restated and/or novated from time to time, the "**Bond Trust Deed**") between, amongst others, the Programme Issuer and Deutsche Trustee Company Limited as trustee (the "**Bond Trustee**", which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Bonds will have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "**Agency Agreement**") dated the Closing Date (to which the Programme Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Agent Bank**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may

also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "**Calculation Agency Agreement**") between, *inter alios*, the Programme Issuer and any calculation agent appointed by the Programme Issuer as calculation agent (the "**Calculation Agent**").

On the date of issue of the first Class and/or Sub-Class of Bonds under the Programme (the "**Closing Date**"), the Programme Issuer will enter into a security agreement (the "**Security Agreement**") with Deutsche Trustee Company Limited as security trustee (the "**Security Trustee**"), pursuant to which the Programme Issuer, the Existing Issuer, AWL and AWHL will grant certain fixed and floating charge security (the "**Security**") to the Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, the Programme Issuer, the Existing Issuer, AWL, each Liquidity Facility Provider, each Finance Lessor, the Hedging Counterparties, the Liquidity Facility Agents, each Authorised Credit Provider (as defined below), the Senior Facilities Agent, the Senior Facilities Arrangers, each Agent, the Account Bank, the Cash Manager (other than when the Cash Manager is AWL), the Standstill Cash Manager and any Additional Secured Creditors (each as defined therein) (together with the Security Trustee, the "**Secured Creditors**"). On the Closing Date, the Programme Issuer will enter into a security trust and intercreditor deed (the "**STID**") with, among others, the Security Trustee and the other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for itself and the other Secured Creditors and the Secured Creditors will agree to certain intercreditor arrangements.

The Programme Issuer will enter into a Dealership Agreement to be dated on or about the date of this Prospectus (as may be amended, supplemented, restated and/or novated from time to time, the "**Dealership Agreement**") with the dealers named therein (the "**Dealers**") in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Programme Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds. In any subscription agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

On the Closing Date, the Programme Issuer will enter into a common terms agreement (the "**Common Terms Agreement**") with, among others, the Security Trustee, pursuant to which the Programme Issuer, the Existing Issuer, AWL and AWHL makes certain representations, warranties and covenants and which sets out in Schedule 6 (*Events of Default*) thereof the Events of Default (as defined therein) in relation to the Bonds.

The Programme Issuer, the Existing Issuer or AWL may enter into liquidity facility agreements (together, the "**DSR Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**DSR Liquidity Facility Providers**") pursuant to which the DSR Liquidity Facility Providers agree to make certain facilities (the "**DSR Liquidity Facilities**") available to meet debt service liquidity shortfalls.

AWL may enter into certain credit facilities (together with the Working Capital Facility, the Capital Expenditure Facility, the DSR Liquidity Facilities, the O&M Reserve Facilities and any other facilities entered into by AWL from time to time, the "**Authorised Credit Facilities**") with certain lenders (together with the lenders in respect of other Authorised Credit Facilities, the "**Authorised Credit Providers**"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to AWL for the purpose of funding certain working capital, capital expenditure and other expenses of the Financing Group.

AWL and/or the Programme Issuer and/or the Existing Issuer may enter into certain currency, index linked and interest rate hedging agreements (together, the "**Hedging Agreements**") with certain Hedging Counterparties (together the "**Hedging Counterparties**") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Programme Issuer, the Existing Issuer, AWL, as the case may be, hedges certain of its currency, index linked and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Final Terms or Drawdown Prospectus), the Existing Issuer Bond Trust Deed, the Existing Issuer Bonds, 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

Agreements, the CTA, the CP Agreement, the Existing Authorised Credit Facilities, any other Authorised Credit Facilities, the master definitions agreement between, among others, the Programme Issuer and the Security Trustee dated the Closing Date and amended from time to time (the "**Master Definitions Agreement**"), the account bank agreement between, among others, the account bank, the Programme Issuer and the Security Trustee (the "**Account Bank Agreement**") and the Tax Deed of Covenant will be, in relation to the Bonds, (and together with each other agreement or instrument between AWL and the Programme Issuer or the Existing 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**".

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or Drawdown Prospectus or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds), save that, if the Bond is an unlisted Bond of any Sub-Class, the applicable Final Terms or Drawdown Prospectus will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Sub-Class and such Bondholder must provide evidence satisfactory to the Programme Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders (as defined below) will be entitled to the benefit of, will be bound by, will be deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the CTA and the relevant Final Terms or Drawdown Prospectus and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these Conditions to a matter being "specified" means as the same may be specified in the relevant Final Terms or Drawdown Prospectus.

1. **Form, Denomination and Title**

(a) *Form and Denomination*

The Bonds are in bearer form ("**Bearer Bonds**") or in registered form ("**Registered Bonds**") as specified in the applicable Final Terms or Drawdown Prospectus and, serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds and vice versa. References in these Conditions to "Bonds" include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

Interest-bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.



(b) *Title*

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "**Register**"), which the Programme Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each "**Bondholder**" (in relation to a Bond, Coupon, Receipt or Talon), "**holder**" and "**Holder**" means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions "**Bondholder**", "**holder**" and "**Holder**" include the holders of instalment receipts (which, in relation to Class A Bonds will be "**Class A Receipts**", in relation to Class B Bonds, "**Class B Receipts**" and together, the "**Receipts**"), appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "**Receiptholders**"), the holders of the coupons (which, in relation to Class A Bonds will be "**Class A Coupons**", in relation to Class B Bonds, "**Class B Coupons**" and together, the "**Coupons**") (if any) appertaining to interest bearing Bonds in bearer form (the "**Couponholders**"), and the expression Couponholders or Receiptholders includes the holders of talons in relation to Coupons or Receipts as applicable, (which, in relation to Class A Bonds will be "**Class A Talons**", in relation to Class B Bonds, "**Class B Talons**" and together, the "**Talons**") (if any) for further coupons or receipts, as applicable attached to such Bonds (the "**Talontholders**").

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Registered Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") or Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"), as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or Drawdown Prospectus or as may otherwise be approved by the Programme Issuer, the Principal Paying Agent and the Bond Trustee.

(c) *Fungible Issues of Bonds comprising a Sub-Class*

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first Interest Payment Date, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2. **Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds**

(a) *Exchange of Bonds*

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms or Drawdown Prospectus, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Definitive Registered Bond, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred; and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations (as specified in the relevant Final Terms or Drawdown Prospectus). In the case of a transfer of part only of a holding of Registered Bonds represented by a Definitive Registered Bond, a new Definitive Registered Bond in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) *Delivery of New Definitive Registered Bonds*

Each new Definitive Registered Bond to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Definitive Registered Bond to such address as may be specified in such request or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the Business Day (as defined below) following the due date for such payment.

(d) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Programme Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No transfer of a Registered Bond may be registered, nor any exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

3. **Status of Bonds**

(a) *Status of Class A Bonds*

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Programme Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*) and rank *pari passu* without any preference among themselves.

(b) *Status of Class B Bonds*

This Condition 3(b) is applicable only in relation to Bonds issued by the Programme Issuer which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Programme Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), are subordinated to the

Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves.

(c) *Security Trustee not Responsible for Monitoring Compliance*

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the other Finance Documents or any Ancillary Documents, the Security Trustee will act as directed, requested or instructed by or subject to the agreement of the Majority Creditors (provided that the relevant Quorum Requirement has been met) or, in particular cases, other specified parties and in accordance with the provisions of the STID.

The Security Trustee shall not be responsible for monitoring compliance by AWL with any of its obligations under the Finance Documents to which it is a party except by means of receipt from AWL of certificates of compliance which AWL has covenanted to deliver to the Security Trustee pursuant to the provisions of the CTA and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors (provided that the relevant Quorum Requirement has been met) in which case it will be bound to act on such instructions in accordance with the STID (subject to the Security Trustee being indemnified and/or prefunded and/or secured to its satisfaction). The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The Security Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of AWL within 60 days of 30 September and 120 days of 31 of March of each year, respectively.

In addition, the Transaction Agent will covenant to provide the Security Trustee with certain additional information relating to the Programme Issuer and the Guarantors (as set out in Schedule 4, Part 1 "*Information Covenants*" of the CTA). Such information may (and in the case of Investor Reports, must) be published by the relevant Guarantor or the Programme Issuer (or by the Transaction Agent on its behalf) on a website designated by the Transaction Agent. Pursuant to the CTA, the Transaction Agent will designate a website for these purposes on or prior to the Closing Date.

In the event the relevant website cannot be accessed for technical reasons or is non-operational or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

4. **Security, Priority and Relationship with Secured Creditors**

(a) *Guarantee and Security*

Each of AWL, Affinity Water Holdings Limited ("**AWHL**") and the Existing Issuer will guarantee and secure the obligations of the Programme Issuer in respect of the Bonds 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 undertaking (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). There is no

intention to create further security for the benefit of the holders of Bonds that may be issued after the Closing Date. All Bonds issued by the Programme Issuer under the Programme and any additional creditor of the Programme 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 Programme Issuer, the Existing 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 Bondholders and with other Secured Creditors*

The Bond Trust Deed will contain provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts and authorities, duties and discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*)).

The STID will provide 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 Bond Trustee as trustee for and representative of the holders of each Sub-Class of Bonds) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors (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 Bondholder, 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 will be set out in the CTA).

(e) *Bond Trustee and Security Trustee not liable for security*

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether

as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5. **Programme Issuer's Covenants**

So long as any of the Bonds remain Outstanding, the Programme Issuer (together with other Obligors) will agree to comply with the covenants as set out in Schedule 4 (*Covenants*) of the CTA.

The Bond Trustee shall be entitled to rely absolutely on a certificate signed by two directors of the Programme Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6. **Interest and other Calculations**

(a) *Interest on Fixed Rate Bonds and Indexed Bonds*

This Condition 6(a) is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Fixed Rate Bonds or Indexed Bonds.

Each Fixed Rate Bond and Indexed Bond bears interest on its Principal Amount Outstanding and, if it is an Indexed Bond, adjusted for indexation in accordance with Condition 7 (*Indexation*) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Interest Rate(s). Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

The amount of interest payable in respect of each Fixed Rate Bond and Indexed Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*).

The amount of interest payable per Calculation Amount in respect of any Fixed Rate Bond and Indexed Bond for any Fixed Interest Period shall be equal to the product of the Interest Rate, the Calculation Amount specified, and the Day Count Fraction for such Fixed Interest Period and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*), unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Fixed Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula).

Where any Interest Period comprises two or more Fixed Interest Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Fixed Interest Periods.

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms or Drawdown Prospectus, such interest payable per Calculation Amount shall be calculated (i) in the case of Bonds other than Indexed Bonds, by applying the Interest Rate to the Calculation Amount specified, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*) and (ii) in the case of Indexed Bonds, on an actual/actual basis in line with the method used by the Debt Management Office for the United Kingdom Index-Linked Gilt Edged Market.

(b) *Interest on Floating Rate Bonds*

This Condition 6(b) is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Floating Rate Bonds.

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms or Drawdown Prospectus; or
- (B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms or Drawdown Prospectus, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms or Drawdown Prospectus after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

The amount of interest payable in respect of each Floating Rate Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*).

The amount of interest payable per Calculation Amount shall be determined in accordance with paragraph (iii) below.

(ii) *Interest Rate(s)*

The Interest Rate(s) payable from time to time in respect of the Floating Rate Bonds will be determined in the manner specified in the applicable Final Terms or Drawdown Prospectus.

- (A) If "**Screen Rate Determination**" is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:
  - (1) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(1) (*Definitions*));
  - (2) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined in Condition 6(1) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(1) (*Definitions*)) on the relevant Interest Determination Date;
  - (3) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:
    - (A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(1) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined in Condition 6(1) (*Definitions*)) interbank

market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

- (4) if fewer than two such quotations are provided as requested in Condition 6(b)(ii)(3), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(1) (*Definitions*)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(1) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

- (B) If "**ISDA Determination**" is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms or Drawdown Prospectus;
- (2) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(1) (*Definitions*)); and
- (3) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms or Drawdown Prospectus.

(iii) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Floating Rate Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount specified by the Day Count Fraction (as defined in Condition 6(1) (*Definitions*)) and rounding the resultant figure to the nearest unit of the Relevant Currency (rounded in accordance with Condition 6(d) (*Rounding*)).

(c) *Minimum Interest Rate and/or Maximum Interest Rate*

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms or Drawdown Prospectus, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(d) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

- (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);
- (ii) all figures will be rounded to seven significant figures (with halves being rounded up); and
- (iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "**unit**" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(e) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms or Drawdown Prospectus is specified to be subject to adjustment in accordance with a Business Day convention and (x) if there is no numerically corresponding day on the calendar month in which such date should occur or (y) such date would otherwise fall on a day which is not a Business Day (as defined in Condition 6(l) (*Definitions*)), then if the Business Day Convention specified in the relevant Final Terms or Drawdown Prospectus is:

- (i) the "**Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day;
- (ii) the "**Modified Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (iii) the "**Preceding Business Day Convention**", such date shall be brought forward to the immediately preceding Business Day.

(f) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "**Instalment Amount**"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the Interest Amount for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*)), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Programme Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than (i) (in case



of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Tranche of Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. If the Calculation Amount is less than the minimum Specified Denomination, the Agent Bank (or the Calculation Agent, if applicable) may publish only the Calculation Amount and the Interest Amount in respect of a Bond having the minimum Specified Denomination. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(g) *Accrual of Interest*

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(l) (*Definitions*)).

(h) *Deferral of interest on Class B Bonds*

This Condition 6(h) is applicable only in relation to Bonds issued by the Programme Issuer which are specified as being Class B Bonds.

In the case of interest on Class B Bonds only, if, on any Interest Payment Date prior to the taking of Enforcement Action, there are insufficient funds available to the Programme Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Accounts) to pay such accrued interest, the Programme Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Programme Issuer has, in accordance with the cash management provisions of Schedule 10 (*Cash Management*) of the CTA, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedging Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

(i) *Agent Bank, Calculation Agent and Reference Banks*

The Programme Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Programme Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is Outstanding. If any Reference Bank (acting through its Programme office) is unable or unwilling to continue to act as a Reference Bank, then the Programme Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the

Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Programme Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(j) *Determination or Calculation by Bond Trustee*

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed and always subject to any Minimum Interest Rate or Maximum Interest Rate specified in the applicable Final Terms or Drawdown Prospectus) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(k) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the absence of wilful default, negligence, bad faith or manifest error) be binding on the Programme Issuer, AWL, AWHL, the Existing Issuer, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Programme Issuer, the Existing Issuer, AWL and AWHL, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(l) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

**"Broken Amount"** means the amount specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Business Day"** means:

- (i) 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; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in U.S. Dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus;

**"Calculation Amount"** has the meaning specified in the relevant Final Terms or Drawdown Prospectus;

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual (ICMA)"** is specified:
  - (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and
  - (B) if the Calculation Period is longer than one Determination Period, the sum of:
    - (a) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and
    - (b) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year

where:

**"Determination Period"** means the period from and including a Determination Date in any year but excluding the next Determination Date; and

**"Determination Date"** means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

- (ii) if **"Actual/Actual"** or **"Actual/Actual (ISDA)"** is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if **"Actual/365 (Fixed)"** is specified, the actual number of days in the Calculation Period divided by 365;
- (iv) if **"Actual/360"** is specified, the actual number of days in the Calculation Period divided by 360;
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows;

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if "**30E/360 (ISDA)**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30;

**"euro"** means the lawful currency of the Participating Member States;

**"EURIBOR"** means the rate for Euro deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Euro deposits for the relevant Interest Period as determined by reference to (1) on the display page designated EURIBOR01 on the Dow Jones Reuters Service (or such other page as may replace that page on that service, or such other service as may be nominated by the Agent Bank as the information vendor, for the purpose of displaying comparable rates) as of the Interest Determination Date or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Agent Bank) as may replace the Dow Jones Reuters Monitor as at or about 11.00 a.m. (Brussels time);

**"Fixed Coupon Amount"** means the amount specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Fixed Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

**"Interest Amount"** means:

- (i) in respect of a Fixed Interest Period, the amount of interest payable per Calculation Amount for that Fixed Interest Period and which, in the case of Fixed Rate Bonds, and unless otherwise specified, shall mean the Fixed Coupon Amount or Broken Amount specified as being payable on the Interest Payment Date at the end of the Interest Period of which such Fixed Interest Period forms part;
- (ii) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period; and
- (iii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

**"Interest Commencement Date"** means the Issue Date or such other date as may be specified in the relevant Final Terms or Drawdown Prospectus;

**"Interest Determination Date"** means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the Relevant Currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined herein) specified in the relevant Final Terms or Drawdown Prospectus) or, in the case of Indexed Bonds, the first Business Day on which it is practicable to calculate the Index Ratio applicable to the relevant Calculation Date in accordance with Condition 7(a);

**"Interest Period"** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

**"Interest Rate"** means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms or Drawdown Prospectus;

**"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.);

**"Issue Date"** means the date specified as such in the relevant Final Terms or Drawdown Prospectus;

**"LIBOR"** means the rate for Sterling or U.S. dollar (as applicable) deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Sterling or U.S. dollar (as applicable) deposits for the relevant Interest Period as determined by reference to the British Bankers Association LIBOR Rates display as quoted on the Bridge Reuters monitor as Reuters Screen LIBOR01 at 11am London time. If the Reuters Screen LIBOR01 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, any page showing this information may be used. If there is more than one service displaying the information, the one approved in writing by the Agent Bank in its sole discretion will be used;

**"Margin"** means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Maturity Date"** means the date specified in the relevant Final Terms or Drawdown Prospectus as the final date on which the principal amount of the Bond is due and payable;

**"Maximum Interest Rate"** means the rate specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Minimum Interest Rate"** means the rate specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Page"** means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**")) as specified in the relevant Final Terms or Drawdown Prospectus as a Relevant Screen Page, and, if such page is unavailable, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

**"Participating Member State"** means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union;

**"Principal Amount Outstanding"** means, 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.

**"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.

**"Redemption Amount"** means, the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms or Drawdown Prospectus;

**"Reference Banks"** means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Programme Issuer, in its sole and absolute discretion;

**"Relevant Currency"** means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

**"Relevant Date"** means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

**"Relevant Financial Centre"** means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

**"Relevant Rate"** means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms or Drawdown Prospectus);

**"Relevant Screen Page"** means EURIBOR or LIBOR, as applicable;

**"Relevant Time"** means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or Drawdown Prospectus or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

**"Representative Amount"** means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms 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;

**"Specified Denomination"** means the denomination specified in the relevant Final Terms or Drawdown Prospectus;

**"Specified Duration"** means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is specified, a period of time equal to the relative Interest Period;

**"Specified Interest Payment Date"** means the date(s) specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Specified Period"** means the period(s) specified as such in the relevant Final Terms or Drawdown Prospectus;

**"TARGET Settlement Day"** means any day on which TARGET2 is open for the settlement of payments in euro; and

**"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.

## 7. **Indexation**

This Condition 7 is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Indexed Bonds.

### (a) *Definitions*

**"Affiliate"** means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "control" means control as defined in the Companies Act;

**"Base Index Figure"** means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms or Drawdown Prospectus;

**"Calculation Date"** means any date when a payment of interest or, as the case may be, principal falls due;

**"Index" or "Index Figure"** means, in relation to any relevant month (as defined in Condition 7(c)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the **"Index Figure applicable"** to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (*Cessation of or Fundamental Changes to the Index*) below, and if "3 months lag" is specified in the relevant Final Terms or Drawdown Prospectus, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-2} - \text{RPI}_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**"IFA"** means the Index Figure applicable;

**"RPI<sub>m-3</sub>"** means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

**"RPI<sub>m-2</sub>"** means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **"Index Figure applicable"** to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (*Cessation of or Fundamental Changes to the Index*) below, and if "8 months lag" is specified in the relevant Final Terms or Drawdown Prospectus, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m-8} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-7} - \text{RPI}_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

**"IFA"** means the Index Figure applicable;

**"RPI<sub>m-8</sub>"** means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

**"RPI<sub>m-7</sub>"** means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

**"Index Ratio"** applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

**"Limited Index Ratio"** means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;



**"Limited Indexation Factor"** means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms or Drawdown Prospectus, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms or Drawdown Prospectus, it shall be deemed to be equal to such Minimum Indexation Factor;

**"Limited Indexation Month"** means any month specified in the relevant Final Terms or Drawdown Prospectus for which a Limited Indexation Factor is to be calculated;

**"Limited Indexed Bonds"** means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms or Drawdown Prospectus) applies;

**"Maximum Indexation Factor"** means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus;

**"Minimum Indexation Factor"** means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus; and

**"Reference Gilt"** means the Treasury Stock specified as such in the relevant Final Terms or Drawdown Prospectus for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Programme Issuer and approved by the Bond Trustee (an **"Indexation Adviser"**).

(b) *Application of the Index Ratio*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(d) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index*

(i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of **"Index"** and **"Index Figure"** in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) Delay in publication of Index: If the Index Figure relating to any month (the **"relevant month"**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Bonds is due (the **"date for payment"**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty's Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2) (*Delay in publication of Index*), the Index Figure relating to the relevant month is subsequently published while a Bond is still Outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2) (*Delay in publication of Index*), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) *Cessation of or Fundamental Changes to the Index*

- (i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Programme Issuer, and the Programme Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Programme Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Programme Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Programme Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Programme Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Programme Issuer and the Bond Trustee in connection with such appointment shall be borne by the Programme Issuer.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Programme Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Programme Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Programme Issuer, the other Secured Creditors, the Bond Trustee and the Bondholders, and the Programme Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

## 8. **Redemption, Purchase and Cancellation**

### (a) *Partial and Final Redemption*

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms or Drawdown Prospectus as having no fixed Maturity Date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Final Terms or Drawdown Prospectus plus accrued but unpaid interest and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*).

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Programme Issuer to pay such principal, the Programme Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Programme Issuer has, in accordance with the cash management provisions of Schedule 10 (*Cash Management*) of the CTA, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full and (iii) an Acceleration of Liabilities (other than a Permitted Hedging Termination, or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

### (b) *Optional Redemption*

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Secured Creditors and the Bondholders, the Programme Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, provided that Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms or Drawdown Prospectus, as follows:

- (i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be an amount equal to the higher of (i) their Principal Amount Outstanding; and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Programme Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such Government stock (or such other stock as specified in the relevant Final Terms or Drawdown Prospectus for Bonds denominated in currencies other than Sterling) as the Programme Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Programme Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "*Formulae for Calculating Gilt Prices from Yields*" published 8 June 1998 with effect from 1 November 1998 and updated on 16 March 2005 (and as further updated, supplemented, amended or replaced from time to time), pages 7 to 11 in respect of Indexed Bonds where "8 month lag" is specified in the relevant Final Terms or Drawdown Prospectus or pages 12 to 13 in respect of Indexed Bonds where "3 month lag" is specified in the relevant Final Terms or Drawdown Prospectus or any replacements therefore; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms or Drawdown Prospectus.

- (ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms or Drawdown Prospectus) plus any accrued but unpaid interest on the Principal Amount Outstanding.
- (iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) be the higher of (i) the Principal Amount Outstanding; and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Programme Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such Government stock as the Programme Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Programme Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Applications of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "*Formulae for Calculating Gilt Prices from Yields*" published 8 June 1998 with effect from 1 November 1998 and updated on 16 March 2006, (and as further updated, supplemented, amended or replaced from time to time), pages 7 to 11 in respect of Indexed Bonds where "8 months lag" is specified in the relevant Final Terms or Drawdown Prospectus or pages 12 to 13 in respect of Indexed Bonds where "3 months lag" is specified in the relevant Final Terms or Drawdown Prospectus or any replacements therefore, "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 8(b)(iii); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms or Drawdown Prospectus.

In any such case, prior to giving any such notice, the Programme Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Security) of any other person, required to redeem the Bonds as aforesaid.

(c) *Redemption for Index Event, Taxation or Other Reasons*

*Redemption for Index Events:* Upon the occurrence of any Index Event (as defined below), the Programme Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Secured Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes referable to the Index the subject of the Index Event on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds referable to the Index the subject of the Index Event are also redeemed at the same time. Before giving any such notice, the Programme Issuer shall provide to the Bond Trustee, the Security Trustee and the Secured Creditors a certificate signed by an Authorised Signatory (a) stating that the Programme Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Programme Issuer so to redeem have occurred and (b) confirming that the Programme Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

"**Index Event**" means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased; or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the

holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Programme Issuer and such circumstances are continuing.

The Bond Trustee, the Security Trustee and the Secured Creditors shall be entitled to accept and rely on any certificate referred to in this Condition 8(c) as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Bondholders, the Receiptholders and the Couponholders.

(d) *Redemption for Taxation Reasons*

In addition, if at any time the Programme Issuer satisfies the Bond Trustee that the Programme Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or the Cayman Islands or, if the Programme 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 Programme 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 Bond Trustee as principal debtor under the Bonds and as lender under the Programme Issuer/AWL Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Programme Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Programme 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 Programme Issuer may (but will not be obliged to), upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Programme Issuer shall provide to the Bond Trustee, the Security Trustee and the Secured Creditors a certificate signed by an Authorised Signatory (a) stating that the Programme Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Programme Issuer so to redeem have occurred; and (b) confirming that the Programme Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

The Bond Trustee, the Security Trustee and the Secured Creditors shall be entitled to accept and rely on any certificate referred to in this Condition 8(d) as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Bondholders, the Receiptholders and the Couponholders.

(e) *Redemption on Prepayment of Programme Issuer/AWL Loan Agreements*

If AWL gives notice to the Programme Issuer under a Programme Issuer/AWL Loan Agreement that it intends to prepay all or part of any advance made under such Programme Issuer/AWL Loan Agreement and such advance was funded by the Programme Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Programme Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Secured Creditors and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "**Reference Date**" means the date two Business

Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(f) *Purchase of Bonds*

The Programme Issuer may, provided that no Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Definitive Registered Bond, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Definitive Registered Bond in respect of the Bonds which are not to be purchased and despatch such Definitive Registered Bond to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

*While the Bonds are represented by a Global Bond or Registered Global Bond (as defined below), the relevant Global Bond or Registered Global Bond will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.*

(g) *Redemption by Instalments*

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms or Drawdown Prospectus) and Instalment Amounts (as specified in the relevant Final Terms or Drawdown Prospectus) will be partially redeemed on each Instalment Date at the Instalment Amount.

(h) *Cancellation*

In respect of all Bonds redeemed or purchased by or on behalf of the Programme Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Programme Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Programme Issuer in respect of any such Bonds shall be discharged.

(i) *Instalments*

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to Condition 8(b) (*Optional Redemption*) above.

9. **Payments**

(a) *Bearer Bonds*

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that

currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) *Registered Bonds*

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named of joint holders) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Registered Global Bond by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

(c) *Payments in the United States of America*

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

- (i) the Programme Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;
- (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and
- (iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Programme Issuer, adverse tax consequences to the Programme Issuer.

(d) *Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Registered Global Bond shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Registered Global Bond (as the case may be) and the Programme Issuer will

be discharged by payment to, or to the order of, the holder of such Global Bond or Registered Global Bond in respect of each amount paid.

(e) *Appointment of the Agents*

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Programme Issuer (and its respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms or Drawdown Prospectus and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Programme Issuer (and, other than as in the circumstances to be set out in the Agency Agreement, the Bond Trustee) and do not assume any obligation or relationship of agency or trust for or with any holder. The Programme Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Programme Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms or Drawdown Prospectus) (in the case of Floating Rate Bonds or Indexed Bonds); (iv) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

- (i) Subject to the provisions of the relevant Final Terms or Drawdown Prospectus, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmaturing Coupons attached), unmaturing Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.
- (ii) Upon the date for redemption of any Bond, any unmaturing Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmaturing Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmaturing Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Programme Issuer may require.
- (v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) *Non-Business Days*

Subject as provided in the relevant Final Terms or Drawdown Prospectus, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in



respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10. **Taxation**

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Programme Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond 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 Programme Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee or the Security Trustee is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Programme Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee or the Security Trustee, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Programme Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee or the Security Trustee will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Programme Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee or the Security Trustee may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

11. **Events of Default**

The Events of Default (as defined in the Master Definitions Agreement) relating to the Bonds will be 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 Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID) and shall upon the Bond Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Sub-Classes of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Sub-Class of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds and subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Programme Issuer and the Security Trustee that the Bonds of the relevant Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Final Terms or Drawdown Prospectus.

(b) *Confirmation of no Event of Default*

The Programme Issuer, pursuant to the terms of the CTA, shall provide written confirmation to the Bond Trustee, on a semi-annual basis, that no Event of Default has occurred.

(c) *Enforcement of Security*

If the Bond Trustee gives written notice to the Programme Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) pursuant to the STID.

Following the notification of an Event of Default, the STID will provide 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 will also contain 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 Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "**Reference Date**" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Final Terms or Drawdown Prospectus plus, in each case, accrued and unpaid interest thereon.

12. **Enforcement Against the Programme Issuer**

No Bondholder is entitled to take any action against the Programme Issuer or against any assets of the Programme Issuer to enforce its rights in respect of the Bonds or to enforce any of the Security unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) pursuant to the STID and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured 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 Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Programme 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 Bonds are Outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13. **Prescription**

Claims against the Programme Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date) in respect thereof.

14. **Replacement of Bonds, Coupons, Receipts and Talons**

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Programme Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Meetings of Bondholders, Modification, Waiver and Substitution**

(a) *Decisions of Majority Creditors, STID Matters and STID Direct Voting Matters*

The STID will contain provisions dealing with the manner in which STID Matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with. Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met).

The STID will provide that the holders of Class A Bonds (the "**Qualifying Bondholders**") shall each be entitled to instruct the Bond Trustee through the clearing systems in accordance with the terms of the Bond Trust Deed to vote on their behalf in relation to such STID Direct Voting Matters as the DIG Representative of such Bondholder.

As will be more fully set out in the STID and the Bond 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 holders of Bonds.

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 Bond Trustee shall promptly forward a copy of such notice to the Qualifying Bondholders in accordance with Condition 17 (*Notices*) requesting them to instruct the Bond Trustee how to vote. After obtaining the instruction of the Qualifying Bondholders, the Bond 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 a Sub-Class or Class of Bondholders, such STID Matter shall not be a STID Direct Voting Matter and the Bond Trustee shall be entitled to convene a meeting of any one or more Sub-Classes of Bondholders to consider such STID Matter and the Bond Trustee shall vote in accordance with a direction by those holders of such outstanding Bonds by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

(b) *Meetings of Bondholders*

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) and the Bond Trust Deed), be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an

"**Extraordinary Resolution**") at such meeting. Such a meeting may be convened by the Bond Trustee or the Programme Issuer, and shall be convened by the Programme Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in Principal Amount Outstanding of the relevant Bonds for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the Principal Amount Outstanding of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Fourth Schedule to the Bond Trust Deed (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in Principal Amount Outstanding of the relevant Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, consent and waiver*

As will be more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein and to the terms of the STID), the Bond Trustee may and, in respect of (iii) below, shall, without the consent of the Bondholders of any Sub-Class, concur with the Programme Issuer or any other relevant parties in making:

- (i) any modification of these Conditions, the Bond Trust Deed or any Finance Document if in the opinion of the Bond 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 Bond Trust Deed or any Finance Document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Sub-Class; or
- (iii) any modification required (A) for the purpose of enabling Bonds to be issued under the Programme within the United States in reliance on Rule 144A under the Securities Act 1933, as amended or (B) 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 Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Programme Issuer to the Bondholders of that Sub-Class as soon as practicable thereafter.

As will be more fully set out in the Bond Trust Deed, the Bond Trustee, in exercising its discretion in making the above modifications, is entitled to take into account any such matters as it in its sole discretion considers relevant, including whether or not the Rating Agencies have confirmed in writing that (or where a Rating Agency is not willing to issue a rating affirmation, AWL (in its capacity as Transaction Agent) has confirmed by certificate that, in its opinion) there will not be any adverse effect on the then current rating of the Bonds.

(d) *Substitution of the Programme Issuer*

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Programme Issuer, without reference to the Bondholders,

to the substitution of another corporation in place of the Programme Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series.

16. **Bond Trustee Protections**

(a) *Trustee considerations*

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Bonds only provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall only consider the interests of the holders of the Class A Bonds and where, in the sole opinion of the Bond Trustee, there is a conflict of interest between holders of two or more Sub-Classes of Bonds of the same Class, it shall only consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for the holders of other Classes or Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Programme Issuer, nor shall any Bondholders be entitled to claim from the Programme Issuer or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of rights by Bond Trustee*

Subject as provided in sub-paragraph (a) above or elsewhere in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed or the Conditions in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (a) (in respect of the matters set out in Condition 11 (*Events of Default*) and Condition 15(a) (*Decisions of the 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 relevant Sub-Classes of Bonds 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 Bondholders*

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) will bind the Bond Trustee and the Bondholders in all circumstances.

17. **Notices**

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Programme Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or any other

relevant clearing system as specified in the relevant Final Terms or Drawdown Prospectus for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18. **Indemnification of the Bond Trustee and Security Trustee**

(a) *Indemnification of the Bond Trustee*

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Programme Issuer and/or any other person unless indemnified and/or secured and/or prefunded to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition 7 (*Indexation*)) are entitled to enter into business transactions with the Programme Issuer, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) *Indemnification of the Security Trustee*

Subject to the Entrenched Rights and Reserved Matters of the Security Trustee, the Security Trustee will only be required to take any action under or in relation to, or to enforce or protect the Security, or any other security interest created by a Finance Document, or a document referred to therein, if instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate), pursuant to the terms of the STID and if indemnified and/or secured and/or prefunded to its satisfaction.

(c) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) 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 Bond Trustee pursuant to the STID, any Finance Document or any Ancillary Document.

19. **European Economic and Monetary Union**

(a) *Notice of redenomination*

The Programme Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Programme Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Programme Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange

(if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

- (ii) if Bonds have been issued in definitive form:
  - (A) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Programme Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;
  - (B) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Programme Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and
  - (C) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;
- (iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
- (iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) *Interest*

Following redenomination of the Bonds pursuant to this Condition 19:

- (i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01; and
- (ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in Euro ranking *pari passu* to the relevant Sub-Class.

20. **Miscellaneous**

(a) *Governing Law*

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any), and the other Finance Documents are, and any non-contractual obligations arising out of or in connection with such documents shall be governed by English law.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) and/ or the Finance Document may be brought in such courts. The Programme Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any rights or remedy which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.



## FORMS OF THE BONDS

### *Form and Exchange – Bearer Bonds*

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**"), without interest Coupons or Talons attached, in each case as specified in the relevant Final Terms or Drawdown Prospectus. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "**Global Bond**") will be delivered on or prior to the issue date of the relevant Sub-Class of the Bonds to a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

The relevant Final Terms or Drawdown Prospectus will also specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Bonds.

### *Temporary Global Bond exchangeable for Permanent Global Bond*

If the relevant Final Terms or Drawdown Prospectus (as applicable) specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons or Talons attached, not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Programme Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bearer Bonds**"):

- on the expiry of such period of notice as may be specified in the relevant Final Terms or Drawdown Prospectus;
- at any time, if so specified in the relevant Final Terms or Drawdown Prospectus;
- if the relevant Final Terms or Drawdown Prospectus specify "Closure of clearing systems", then if Euroclear or Clearstream, Luxembourg or Clearstream Banking, *société anonyme*, Luxembourg, or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

- the Programme Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bearer Bonds, the Programme Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

*Temporary Global Bond exchangeable for Definitive Bearer Bonds*

If the relevant Final Terms or Drawdown Prospectus (as applicable) specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bearer Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bearer Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms or Drawdown Prospectus specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bearer Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bearer Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bearer Bonds, the Programme Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

*Permanent Global Bond exchangeable for Definitive Bearer Bonds*

If the relevant Final Terms or Drawdown Prospectus (as applicable) specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bearer Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bearer Bonds:

- on the expiry of such period of notice as may be specified in the Drawdown Prospectus;
- at any time, if so specified in the Drawdown Prospectus;
- if the relevant Final Terms or Drawdown Prospectus specifies "Closure of clearing systems", then if Euroclear or Clearstream, Luxembourg or Clearstream Banking, *soci t  anonyme*, Luxembourg, or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
- the Programme Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bearer Bonds, the Programme Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds,

duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

*In the event that a Global Bond is exchanged for Definitive Bearer Bonds, such Definitive Bearer Bonds shall be issued in Specified Denominations(s) only. A Bondholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Bearer Bond in respect of such holding and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more Specified Denominations.*

#### *Conditions applicable to the Bonds*

The Conditions applicable to any Definitive Bearer Bond will be endorsed on that Bond and will consist of the Conditions set out under section "*Terms and Conditions of the Bonds – The Bonds*" above and the provisions of the relevant Final Terms or Drawdown Prospectus which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bearer Bond to the extent described under section "*Provisions Relating to the Bonds while in Global Form - The Bonds*".

#### *Legend concerning United States persons*

Global Bonds and Definitive Bearer Bonds having a maturity of more than 365 days and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

#### *Form and Exchange – Registered Global Bonds*

The following description is in respect of registered bonds issued under the Programme that are offered outside the United States in accordance with Regulation S of the Securities Act.

#### *Registered Global Bonds*

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or any other clearing system will be represented by a registered global bond (each a "**Registered Global Bond**") which will be registered in the name of a nominee for, and deposited with, a depository for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

#### *Exchange*

The Registered Global Bond will become exchangeable in whole, but not in part, for definitive registered bonds (each a "**Definitive Registered Bond**") if (a) Euroclear or Clearstream, Luxembourg and/or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; (b) at any time at the request of the registered Holder if so specified in the Final Terms or Drawdown Prospectus; or (c) the Programme Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Registered Global Bond.

Whenever the Registered Global Bond is to be exchanged for Definitive Registered Bond, such will be issued in an aggregate principal amount equal to the principal amount of the Registered Global Bond within seven Business Days of the delivery, by or on behalf of the registered Holder of the Registered Global Bond to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Definitive Registered Bond (including the names and addresses of the persons in whose names the Definitive Registered Bond are to be registered and the principal amount of each such person's holding) against the surrender of the Registered Global Bond at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

#### *Rights Against the Programme Issuer*

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Programme Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Registered Global Bond became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (as the case may be).

#### **Provisions Relating to the Bonds while in Global Form**

##### *Clearing System Accountholders*

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Registered Global Bond.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Registered Global Bond (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Programme Issuer to such Accountholder and in relation to all other rights arising under the Global Bond or Registered Global Bond. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Registered Global Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Registered Global Bond, Accountholders shall have no claim directly against the Programme Issuer in respect of payments due under the Bonds and such obligations of the Programme Issuer will be discharged by payment to the bearer of the Global Bond or the registered holder of the Registered Global Bond, as the case may be.

##### *Amendment to Conditions*

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- *Meeting*: The holder of a Global Bond or Registered Global Bond shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Registered Global Bond shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Registered Global Bond may be exchanged.
- *Cancellation*: Cancellation of any Bond represented by a Global Bond or Registered Global Bond that is required by the Conditions to be cancelled (other than upon its redemption) will be

effected by reduction in the principal amount of the relevant Global Bond or Registered Global Bond.

- *Notices:* So long as any Bonds are represented by a Global Bond or Registered Global Bond and such Global Bond or Registered Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions.
- *Payment:* For the purpose of any payments made in respect of a Global Bond, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 9(g) (*Non-Business Days*).

All payments in respect of any Bond represented by a Registered Global Bond will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

## PRO FORMA FINAL TERMS

Final Terms dated [•]

### AFFINITY WATER PROGRAMME FINANCE LIMITED

Issue of [Sub-Class [•][•] [Aggregate Nominal Amount of Sub-Class]

#### [TITLE OF BONDS]

under the £2,500,000,000 Guaranteed Bond Programme

### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated [•] [and the supplemental Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Programme Issuer, the Guarantors and the offer of the [Sub-Class [•][•] [Aggregate Nominal Amount of Sub-Class] is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented].

The Prospectus [and the supplemental Prospectus] [has] [have] been published on the website of the London Stock Exchange at [www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and [a copy is] [copies are] available for viewing at the Specified Office of the Principal Paying Agent and at the registered office of the Programme Issuer at [•] during usual business hours on any weekday apart from Saturdays, Sundays and public holidays, and copies may be obtained from AWL at the following address: Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by any financial institution.]

1. (i) Issuer: Affinity Water Programme Finance Limited
- (ii) Guarantors: Affinity Water Holdings Limited, Affinity Water Limited, Affinity Water Finance (2004) Limited
2. (i) Series Number: [•]
- (ii) Sub-Class Number: [•]
- (iii) [Sub-Class Number for the purposes of consolidation under Condition 1(c):] [•]
- (iv) [Date on which become consolidated under Condition 1(c):] [•]
3. Relevant Currency or Currencies: [•]
4. Aggregate Nominal Amount:
  - (i) Series: [•]
  - (ii) Sub-Class: [•]
  - (iii) Tranche: [•]

5. (i) Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
- (ii) Net proceeds: (required only for listed issues) [•]
6. (i) Specified Denominations: [•]
- [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bonds in definitive form will be issued with a denomination above [€199,000].]
- (ii) Calculation Amount [•]
7. (i) Issue Date: [•]
- (ii) Interest Commencement Date (if different from the Issue Date): [•]
8. [Maturity Date]/[Final Reference Date]: [•]
9. Instalment Date: [Not applicable/[•]]
10. Interest Basis: [[•] per cent. Fixed Rate]  
[[specify reference] +/- [•] per cent. Floating Rate]
- [Index Linked Interest]
11. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Instalment]
12. Change of Interest or Redemption/Payment Basis: [•]
13. Call Options: Issuer Call Option
14. (i) Status of the Guarantees: Senior
- (ii) [Date [Board] approval for issuance of Bonds [and Guarantee] obtained: [•] [and [•], respectively]]
15. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. Fixed Rate Bond Provisions: [Applicable/Not Applicable]
- (i) Interest Rate: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]

- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with / not adjusted]
- (iii) Fixed Coupon Amounts: [•] per Calculation Amount
- (iv) Broken Amounts: [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual]360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)]
- (vi) Determination Date: [•] in each year
- (vii) Reference Gilt: [•]
17. Floating Rate Bond Provisions: [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Dates: [•]
- (ii) First Interest Payment Date: [•]
- (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank): [Not Applicable/Calculation Agent]
- (vi) Screen Rate Determination:
- Specified Duration: [•]
  - Relevant Time: [•]
  - Relevant Rate: [•]
  - Interest Determination Date(s): [•]
  - Relevant Screen Page: [•]  
[EURIBOR] [LIBOR]
- (vii) ISDA Determination:
- Floating Rate Option: [•]
  - Specified Duration: [•]



- Reset Date: [•]
  - [ISDA Definitions] [2000/2006]
- (viii) Margin(s): [+/-][•] per cent. per annum
- [Step-Up Fees:] [•]
- [Step-Up Date:] [•]
- (ix) Minimum Interest Rate: [Not Applicable] [•]
- (x) Maximum Interest Rate: [Not Applicable] [•]
- (xi) Day Count Fraction: [Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)]
- (xii) Additional Business Centre(s): [•]
- (xiii) Relevant Financial Centre: [•]
- (xiv) Representative Amount: [•]
18. Indexed Bond Provisions: [Applicable/Not Applicable]
- (i) Index/Formula: [•]
- (ii) Base Index Figure: [•]
- (iii) Index Figure applicable: [As determined in accordance with Condition 7(a); [3/8] months lag applies]
- (iv) Interest Rate: [•] per cent. (as adjusted for indexation in accordance with Condition 7 (*Indexation*))
- (v) Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank): [Not Applicable/Calculation Agent]
- (vi) Provisions for determining Coupon where calculation by reference to index and/or formula is impossible or impracticable: Applicable. See Conditions 7(c) and 7(e)
- (vii) Interest Payment Dates: [•]
- (viii) First Interest Payment Date: [•]
- (ix) Business Day Convention: [Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention]
- (x) Business Centres: [•]
- (xi) Minimum Indexation Factor: [Not Applicable/[•]]

- (xii) Maximum Indexation Factor: [Not Applicable/[•]]
- (xiii) Limited Indexation Month(s): [•]
- (xiv) Reference Gilt: [•]
- (xv) Day Count Fraction: [Actual/Actual ICMA] [Actual/365 or Actual/Actual]  
[Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)]
- (xvi) Determination Date(s): [•]

**PROVISIONS RELATING TO REDEMPTION**

- 19. Call Option: [Applicable in accordance with Condition 8(b)/Not Applicable]
  - (i) Optional Redemption Date(s): Any Interest Payment Date [In the case of Floating Rate Bonds, not before [•] and at a premium of [•], if any]
  - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [•] per Calculation Amount
  - (iii) if redeemable in part:
    - (a) Minimum Redemption Amount: [Not Applicable] [•]
    - (b) Maximum Redemption Amount: [Not Applicable] [•]
- 20. Final Redemption Amount: [•] per Calculation Amount
- 21. Reference Gilt: [•] [Not Applicable]

**GENERAL PROVISIONS APPLICABLE TO THE BONDS**

- 22. Form of Bonds: [Bearer/Registered]
  - (i) If issued in Bearer form: [Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bearer Bonds in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]  
  
[Temporary Global Bond exchangeable for Definitive Bearer Bonds on [•] days' notice].  
  
[Permanent Global Bond exchangeable for Definitive Bearer Bonds in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
  - (ii) If Registered Bonds: [Registered Global Bond exchangeable for Definitive Registered Bonds]

23. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/[•]]
24. Talons for future Coupons or Receipts to be attached to Definitive Bearer Bonds (and dates on which such Talons mature): [Yes/No]
25. Details relating to Instalment Bonds: [Not Applicable][Applicable]
- (i) Instalment Date: [•]
- (ii) Instalment Amount: [•]
26. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 19] apply]
27. TEFRA rules: [TEFRA C/TEFRA D/Not Applicable]

**DISTRIBUTION**

28. If syndicated, names of Managers: [Not Applicable/[•]]
29. If non-syndicated, name of Dealer: [Not Applicable/[•]]
30. U.S. Selling Restrictions [Reg S Compliance Category, TEFRA C/TEFRA D/TEFRA not applicable]

Signed on behalf of the Programme Issuer:

By:.....  
Duly authorised

Signed on behalf of Affinity Water Limited:

By:.....  
Duly authorised

Signed on behalf of Affinity Water Holdings Limited:

By:.....  
Duly authorised

Signed on behalf of Affinity Water Finance (2004) Limited:

By:.....  
Duly authorised

## PART B - OTHER INFORMATION

### 1. Listing

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Bonds to be admitted to trading on [•] with effect from [•]. [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [•]

### 2. Ratings

- Ratings: The Bonds to be issued have been rated:
- [Fitch: [•]]
  - [Moody's: [•]]
  - [S&P: [•]]

### 3. [Notification]

The UK Listing Authority [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

[•]

### 5. Reasons for the offer, estimated net proceeds and total expenses

- (i) [Reasons for the offer: [•]]
- (ii) [Estimated net proceeds: [•]]
- (iii) [Estimated total expenses: [•]]

### 6. [YIELD]

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is

not an indication of future yield.]

7. **[Floating Rate Bonds Only - HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

8. **[Indexed Bonds only – PERFORMANCE OF RETAIL PRICE INDEX AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where information about the RPI and its past and future performance and volatility can be obtained.] ]

9. **Operational information**

ISIN Code: [•]

Common Code: [•]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s): [Not Applicable/[•]]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [•]

Names and addresses of additional Paying Agent(s) (if any): [•]

**CHAPTER 9**  
**USE OF PROCEEDS**

The proceeds from each issue of Bonds by the Programme Issuer under the Programme will be on-lent to AWL under the terms of a Programme Issuer/AWL Loan Agreement to be applied by AWL for its general corporate purposes or used to repay or service AWL's Financial Indebtedness (including, in respect of the proceeds from the issue of Bonds issued by the Programme Issuer on the Closing Date, in repayment of the Acquisition Term Facility (in part or in full)).

## **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.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The HSBC Group serves customers worldwide from around 6,900 offices in 84 countries and territories in Europe, Hong Kong, the rest of the Asia-Pacific, the Middle East and North Africa, North America and Latin America. With assets of US\$2,652 billion at 30 June 2012, HSBC is one of the world's largest banking and financial services organisations.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are currently rated P-1 by Moody's, A-1+ by S&P and F1+ by Fitch and the long term senior, unsecured and unguaranteed obligations of HSBC Bank plc are currently rated Aa3 by Moody's, AA- by S&P and AA by Fitch.

#### **Lloyds TSB Bank plc**

Lloyds TSB Bank plc ("**Lloyds TSB Bank**") was incorporated in England and Wales on 20 April 1865 (registration number 2065). Lloyds TSB Bank's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom. Lloyds TSB Bank is authorised and regulated by the Financial Services Authority. Lloyds TSB Bank is a wholly owned subsidiary of Lloyds Banking Group plc (the "**Company**"), and 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 personal and corporate customers. The businesses of Lloyds Banking Group are in or owned by Lloyds TSB Bank. Lloyds Banking Group owns Lloyds TSB Bank directly which in turn owns HBOS plc ("**HBOS**") directly.

Lloyds Bank plc was incorporated in 1865 and has undertaken a number of mergers and acquisitions, including the merger with TSB Group plc in 1995, the acquisition of Cheltenham & Gloucester Building Society in 1995, the acquisition of Scottish Widows in 2000 and the acquisition of HBOS in 2009. Lloyds TSB Group plc changed its name to Lloyds Banking Group plc at the time of HBOS acquisition.

Additional information, including copies of the most recent publicly available financial results of Lloyds TSB Bank plc 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 available on this website does not form part of this Prospectus.

#### **National Australia Bank Limited**

##### *History and development of National Australia Bank Limited ("**NAB**")*

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).

### ***Principal activities***

NAB and its controlled entities ("NAB Group") is an international financial services group, providing a comprehensive and integrated range of financial products and services.

The principal activities of the NAB Group 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.

### **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 the parent company of RBC Europe Limited, the Dealer and Royal Bank of Canada, the Existing Hedging Counterparty, Senior Facilities Arranger, Senior Term Facility Provider, Working Capital Facility Provider, Capital Expenditure Facility Provider, Facility B Arranger and Facility B Provider.

Royal Bank and its subsidiaries operate under the master brand name RBC. Royal Bank is Canada's largest bank as measured by assets and market capitalization and is among 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 wholesale banking on a global basis. Royal Bank and its subsidiaries employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 49 other countries.

Royal Bank had, on a consolidated basis, as at October 31, 2012, total assets of C\$825 billion (approximately US\$826 billion<sup>18</sup>), equity attributable to shareholders of C\$44 billion (approximately US\$44 billion\*), and total deposits of C\$508 billion (approximately US\$509 billion\*). The foregoing figures were prepared in accordance with International Financial Reporting Standards and have been extracted and derived from, and are qualified by reference to, Royal Bank's audited Annual Consolidated Financial Statements included in Royal Bank's Report to Shareholders for the fiscal period ended October 31, 2012.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA- (stable outlook) by Standard & Poor's Ratings Services, Aa3 (stable 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](http://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.

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<sup>18</sup> As at October 31, 2012: C\$1.00 = US\$1.0010010010



### **The Royal Bank of Scotland plc**

The Royal Bank of Scotland plc ("**the Royal Bank**", "**RBS plc**" or "**the Bank**") is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**" or "**the holding company**"), a large banking and financial services group. The "Group" (for the purposes of this section "*The Royal Bank of Scotland plc*" only) comprises the Bank and its subsidiary and associated undertakings. The Group has a large and 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.

RBS Group had total assets of £1,415 billion and owners' equity of £74 billion as at 30 June 2012. RBS Group's capital ratios, as at 30 June 2012, were a total capital ratio of 14.6 per cent., a Core Tier 1 capital ratio of 11.1 per cent. and a Tier 1 capital ratio of 13.4 per cent.

The Group had total assets of £1,359 billion and owners' equity of £62 billion as at 30 June 2012. As at 30 June 2012, the Group's capital ratios were a total capital ratio of 15.4 per cent., a Core Tier 1 capital ratio of 9.9 per cent. and a Tier 1 capital ratio of 11.6

## **CHAPTER 11 TAX CONSIDERATIONS**

### ***UK Taxation***

The following is a general summary of the UK withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. It is based on current law and the practice of Her Majesty's Revenue and Customs ("**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 Bonds. The comments are made on the assumption that the Programme Issuer of the Bonds is resident in the UK for UK tax purposes. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds and may not apply to certain classes of persons such as dealers, certain professional advisers, or persons connected with the Programme Issuer. The comments do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. Prospective Bondholders should be aware that the particular terms of issue of any series of Bonds may affect the tax treatment of that and other series of Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

The references to "interest" in this section mean "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 Bonds or any related documentation.

The following description of the UK withholding tax position assumes that there will be no substitution of the Programme Issuer pursuant to Condition 8(c) or 15(d) of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

### ***Payment of Interest by the Programme Issuer on the Bonds***

#### ***Interest on the Bonds***

The Bonds 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.

Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of United Kingdom tax.

In all other cases, interest will generally be paid by the Programme 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 HM Revenue & Customs 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 Programme Issuer will not pay additional amounts in respect of the Bonds.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on redemption of any Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax

authorities in other countries. However, in relation to amounts payable on the redemption of such Bonds HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013.

#### ***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 Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) is uncertain. In particular, such payments by a Guarantor may not be eligible for the quoted Eurobond exemption described above in relation to payments of interest by the Programme 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 Bonds.

#### ***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 or certain other persons 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 European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

#### ***Cayman Islands Tax Considerations***

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bond under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

1. payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Bonds nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
2. no stamp duty is payable in respect of the issue of the Bonds although duty may be payable if Bonds, in bearer form, are executed in or brought into the Cayman Islands; and
3. certificates evidencing the Bonds, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Bond in registered form, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Programme Issuer has applied for and can expect to receive an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Programme Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of the Programme Issuer or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by

the Programme Issuer to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Programme Issuer.

## **CHAPTER 12 SUBSCRIPTION AND SALE**

### **Dealership Agreement**

Bonds may be sold from time to time by the Programme Issuer to any one or more of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc and any other dealer appointed from time to time in respect of the Programme or a particular Issue Date (the "**Dealers**") pursuant to the dealership agreement dated on or about the date of this Prospectus as amended, supplemented, restated and/or novated from time to time, made between, amongst others, AWL, the Programme Issuer, the Arranger and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Programme Issuer to, and purchased by, Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Programme Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Programme Issuer, failing whom AWL, have each agreed to reimburse the Arranger and the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **Selling and Transfer Restrictions of the United States of America**

#### ***Selling Restrictions***

The Bonds and 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.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. 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 Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealership Agreement, it will not offer, sell or, in the case of Bearer Bonds, deliver Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Programme Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Programme Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

The Bonds 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 Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States. The Programme Issuer and the Dealers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Programme Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

### ***Transfer Restrictions***

Each purchaser of the Bonds outside the United States pursuant to Regulation S and each subsequent purchaser of such Bonds in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time the Bonds are purchased will be, the beneficial owner of such Bonds 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 Programme Issuer or a person acting on behalf of such an affiliate.
- (b) It understands that such Bonds 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 Bonds except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (c) It understands that such Bonds, unless otherwise determined by the Programme Issuer in accordance with applicable law, will bear a legend to the following:

"THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."
- (d) It understands that the Programme Issuer, the Registrar, the Dealers 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 Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus as completed by the relevant Final Terms or Drawdown Prospectus in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Programme Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (a) to (c) above shall require the Programme Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds 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 Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and, for the purposes of this section, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in any 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 Dealer has represented, warranted and agreed that:

- (a) *No deposit-taking*: in relation to any Bonds having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Programme Issuer;
- (b) *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 any Bonds in circumstances in which section 21(1) of FSMA does not apply to the Programme Issuer; and
- (c) *General Compliance*: it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### **Cayman Islands**

No invitation or solicitation whether directly or indirectly will be made to the public in the Cayman Islands to subscribe for the Bonds.

### **General**

Save for obtaining the approval of the Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Market, no action has been or will be taken in any jurisdiction by the Programme Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Programme Issuer. Any such supplement or modification will be set out in the relevant Final Terms or Drawdown Prospectus (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.



## **CHAPTER 13 GENERAL INFORMATION**

### **Authorisation**

The establishment of the Programme, the issue of Bonds thereunder and the giving of the guarantee by the Programme Issuer of the obligations of AWL and the Existing Issuer have been duly authorised by resolutions of the board of directors (the "**Board**") of the Programme Issuer passed at a meeting of the Board held on 15 January 2013. The Programme Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the guarantees by each of AWL, AWHL and the Existing Issuer has been duly authorised by a resolution of the board of directors of each of AWL, AWHL and the Existing Issuer, respectively, dated 12 December 2012 (in the case of AWL) and 15 January 2013 (in the case of each of AWHL and the Existing Issuer), respectively.

### **Listing of Bonds**

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the Market or any other Stock Exchange or which will be listed on such Stock Exchange as the Programme Issuer and the relevant Dealer(s) may agree.

### **Documents Available**

For so long as the Programme remains in effect or any Bonds shall be Outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

- (i) the annual audited unconsolidated financial statements of AWL and the Existing Issuer for the years ended 31 March 2012 and 31 March 2011;
- (ii) a copy of this Prospectus;
- (iii) any Final Terms or Drawdown Prospectus relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms or Drawdown Prospectus will only be available for inspection by the relevant Bondholders;
- (iv) each Investor Report; and
- (v) the Bond Trust Deed.

Copies of each set of the Final Terms or Drawdown Prospectus (in the case of Bonds to be admitted to the Official List) will also be available from Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ and from the website of the Regulatory News Service.

### **Transparency Directive**

Under the terms of the CTA, the Programme Issuer is required, if it is impracticable or unduly burdensome to maintain the admission of all listed Bonds 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 Programme 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 Programme Issuer considers such obligation to be unduly burdensome, the Programme Issuer may decide to delist the Bonds from the Official List and the Market and to seek an alternative listing of the Bonds on an exchange-regulated market or on a stock exchange outside the European Union.

### **Clearing Systems**

The Bonds will be accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Sub-Class of Bonds to be allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms or Drawdown Prospectus. If the Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Drawdown Prospectus.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms or Drawdown Prospectus.

### **Significant or Material Change**

There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of:

- (a) each of the Programme Issuer and AWHL, since the date of its respective incorporation; and
- (b) the Existing Issuer and AWL, since 31 March 2012.

### **Litigation**

None of the Programme Issuer or any other member of the Financing Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Programme Issuer or any other member of the Financing Group is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Programme Issuer and/or the Financing Group, respectively.

### **Availability of Financial Statements**

The audited unconsolidated annual financial statements of the Programme Issuer and the audited unconsolidated annual financial statements of AWL, AWHL or the Existing Issuer will be prepared as of 31 March in each year. None of the Programme Issuer, the Existing Issuer, AWL or AWHL have published and none of the Programme Issuer, the Existing Issuer or AWHL intend to publish any interim financial statements. AWL has not published and does not intend to publish any interim financial statements in respect of any period prior to the Initial Issue Date. The unaudited unconsolidated interim (if any) financial statements of AWL will be prepared as of 30 September in each year. All future audited unconsolidated annual financial statements (and any published interim financial statements) of the Programme Issuer and the audited unconsolidated annual financial statements of each of AWL, AWHL or the Existing Issuer will be available free of charge in accordance with section "*Documents Available – General Information*" above.

## **Auditors**

The auditors of AWL, AWHL, the Existing Issuer and the Programme Issuer are Ernst & Young LLP (the "**Auditors**"), 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 and the Existing Issuer have been prepared in accordance with generally accepted accounting standards in the United Kingdom for the years ended 31 March 2012 and for the year 31 March 2011. In each case the Auditors have given unmodified reports which contained no statement under section 498(2) or (3) of the Companies Act 2006. The audited accounts of AWL and the Existing Issuer have been delivered to the Registrar of Companies.

The audit reports of Ernst & Young LLP with respect to the audited financial statements of AWL and the Existing Issuer as of and for the years ended 31 March 2012 and 31 March 2011, in accordance with the Companies Act 2006 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."

## **Bond Trustee's reliance on reports and legal opinions**

Certain of the reports of accountants and other experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts. The Bond Trustee will not necessarily be an addressee to such reports.

Under the terms of the Programme, the Bond Trustee will not necessarily receive a legal opinion in connection with each issue of Bonds.

## **Legend**

Bonds, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

## **Information in respect of the Bonds**

The Issue Price and the amount of the relevant Bonds will be determined, before filing of relevant Final Terms or Drawdown Prospectus of each Tranche, based on then prevailing market conditions. The Programme Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds; 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 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 Existing Issuer Bonds); 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 Existing Issuer Bonds.

**"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.

"**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 on or about the Closing Date between, among others, the Obligors, the Account Bank, the Standstill Cash Manager and the Security Trustee.

"**Actual/360**" has the meaning given to it in the Condition 6(l) (*Definitions*).

"**Actual/365 (Fixed)**" has the meaning given to it in the Condition 6(l) (*Definitions*).

"**Actual/Actual (ICMA)**" has the meaning given to it in the Condition 6(l) (*Definitions*).

"**Actual/Actual (ISDA)**" has the meaning given to it in the Conditions 6(l) (*Definitions*).

"**Actual/Actual**" has the meaning given to it in the Condition 6(l) (*Definitions*).

"**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 Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.

"**Agent**" means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent, any Paying Agent or any other agent appointed by the Programme Issuer pursuant to the Agency Agreement or Calculation Agency Agreement.

"**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.

"**AMP Period**" means a five year period in relation to which an asset management plan is submitted by AWL to Ofwat.

"**AMP5**" means the asset management plan prepared for the AMP5 period.

"**AMP5 Period**" means the AMP Period commencing on 1 April 2010.

"**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 Programme Issuer, the Existing 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 Existing Issuer/AWL Loan Agreements, the Senior Term Facilities, the Working Capital Facility, the Capital Expenditure Facility, Facility B, the Bond Trust Deed, the Existing Issuer Bond Trust Deed, the Bonds, the Existing Issuer Bonds, 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 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 Existing Issuer Bonds);
- (e) any deposit made with the Account Bank; or
- (f) any Bonds or the Existing Issuer Bonds purchased for *bona fide* purposes as part of prudent treasury management policies.

**"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 Existing Issuer Bonds); 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 Existing Issuer Bonds.

**"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.

**"AWCF"** means Affinity Water Capital Funds Limited, a company incorporated in England and Wales, registered number 02630142.

**"AWAHL"** means Affinity Water Acquisitions (Holdco) Limited, a company incorporated with limited liability in England and Wales, registered number 08101957.

**"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 8350099.

**"AWL Business Plan"** means the latest AWL annual business plan prepared by AWL as approved by the board of directors of AWL.

**"AWL"** means Affinity Water Limited, a company incorporated with limited liability in England and Wales, registered number 02546950.

**"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 Programme Issuer or the Existing Issuer.

**"AWL Central Region"** has the meaning given to it in Chapter 5 of this Prospectus.

**"AWL Region"** has the meaning given to it in Chapter 5 of this Prospectus.

**"AWL Southeast Region"** has the meaning given to it in Chapter 5 of this Prospectus.

**"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.

**"Base Index Figure"** means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms or Drawdown Prospectus.

**"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.



**"Bond Certificates"** means the Global Bond Certificates and the Individual Bond Certificates and "Bond Certificate" means either a Global Bond Certificate or an Individual Bond Certificate, as the context may require.

**"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.

**"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.

**"Broken Amount"** means the amount specified as such in the relevant Final Terms or Drawdown Prospectus.

**"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 Amount"** has the meaning specified in the relevant Final Terms or Drawdown Prospectus.

**"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.

**"Calculation Period"** means, in respect of the calculation of an amount of interest on any Bond, any period of time whether or not constituting an Interest Period.

**"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 Existing Issuer Bonds;
- (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 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 Existing Issuer Bonds, the Existing Bond 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 Programme Issuer and the Existing 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 Creditor**" means a provider of or a creditor in respect of Class B Debt.

"**Class B Coupons**" means the coupons (if any) appertaining to interest bearing Class B Bonds in bearer form.

"**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 Financial Indebtedness incurred under the Facility B Agreement;
- (c) the Authorised Credit Facilities designated as Class B Debt in such Authorised Credit Facilities or related Accession Memorandum;
- (d) the Finance Leases (other than the Existing Finance Leases) designated as Class B Debt;
- (e) the Class B Hedging Agreements; and

- (f) 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 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 Receipts"** means instalment receipts in relation to Class B Bonds.

**"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 the Initial Issue Date.

**"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 or about 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 Programme Issuer, the Existing 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 Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.

**"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 Bond, such coupon being:

- (i) if appertaining to a Fixed Rate Bond, a Floating Rate Bond or an Indexed Bond, in the form or substantially in the form set out in Part E (*Form of Coupon*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed or in such other form, having regard to the terms of issue of the Bonds of the relevant Sub-Class, as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s); or
- (ii) if appertaining to a Definitive Bond which is neither a Fixed Rate Bond nor a Floating Rate Bond nor an Indexed Bond, in such form as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s),

and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

**"Couponholders"** means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.

**"Court"** or **"High Court"** means the High Court of England and Wales.

**"Covenantors"** means AWHL 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 Obligors.

**"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 6(1) (*Definitions*).

**"Dealers"** means HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, RBC Europe Limited and The Royal Bank of Scotland plc together with any other entity which the Programme Issuer and the other Obligors may appoint as a Dealer and notice of whose appointment has been given to the Principal Paying Agent and the Bond Trustee by the Programme Issuer in accordance with the provisions of the Dealership Agreement and references to a **"relevant Dealer"** or the **"relevant Dealer(s)"** mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Programme Issuer has agreed the issue of the Bonds of such Tranche and **"Dealer"** means any one of them.

**"Dealership Agreement"** means the agreement dated on or about the date of the Prospectus 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 entered into on the Closing Date by the Obligors and the Existing Issuer Bond Trustee in respect of the Existing Issuer Bonds.

**"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 Bond"** means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Programme Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Programme Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms or Drawdown Prospectus (as applicable)), such Bearer Bond in definitive form being in the form or substantially in the form set out in Part C (*Form of Definitive Bond*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms or Drawdown Prospectus (as applicable) endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

**"Definitive Registered Bond"** means Registered Bond in definitive form representing Bonds in registered form.

**"DEFRA"** means the United Kingdom Department for the Environment, Food and Rural Affairs.

**"Determination Date"** has the meaning given to it in the Condition 6(1) (*Definitions*).

**"Determination Period"** has the meaning given to it in the Condition 6(1) (*Definitions*).



"**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.

"**Draft Water Bill**" means the draft Water Bill the Government published on 10 July 2012 for pre-legislative scrutiny.

"**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.

**"Early Redemption Amount"** has the meaning, in relation to a Class and/or Sub-Class of Bonds, given to such term in the Conditions relating to such Class and/or Sub-Class of Bonds.

**"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.

**"Enhanced Rights Matter"** shall have the meaning given to it in the STID.

**"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.

**"Entrenched Rights"** means the rights of the Secured Creditors provided by Schedule 2 (*Entrenched Rights*) of the STID.

**"Enterprise Act"** means the Enterprise Act 2002.

**"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 Savings Directive"** means the EU Council Directive 2003/48/EC regarding the taxation of savings income.

**"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.

**"Euro Exchange Date"** means the date on which the Programme Issuer gives the Euro Exchange Notice to the Bondholders and the Bond Trustee.

**"Euro Exchange Notice"** means a notice given by the Programme Issuer to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange.

**"Eurobond Basis"** has the meaning given to it in the Condition 6(1) (*Definitions*).

**"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 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 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 Transaction"** means each Hedging Transaction novated to AWL on or about the Closing Date pursuant to each respective Novation Agreement.

**"Existing Issuer"** means Affinity Water Finance (2004) Limited, a company incorporated with limited liability in England and Wales, registered number 05139236.

**"Existing Issuer/AWL Loan Agreements"** means the existing loan agreement entered into between the Existing Issuer (as lender) and AWL (as borrower) on or about the Closing Date and each an **"Existing Issuer/AWL Loan Agreement"**.

**"Existing Issuer Bond Trust Deed"** means the trust deed in respect of the Existing Issuer Bonds between the Existing Issuer, AWL and the Existing Issuer Bond Trustee dated 13 July 2004 as amended and supplemented from time to time.

**"Existing Issuer Bond Trustee"** means Citicorp Trustee Company Limited or any successor trustee appointed in accordance with the Existing Issuer Bond Trust Deed and who has acceded to the STID.

**"Existing Issuer Bond 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

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

**"Existing Issuer Bonds"** means the £200,000,000 5.875 per cent. guaranteed bonds due 2026 issued by the Existing Issuer and guaranteed by AWL and includes, where the context permits, the coupons in respect of those bonds.

**"Existing Issuer DSR Proportion"** means a proportion of the Class A Required Balance attributable to the Existing 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 Existing Issuer Bonds, set out in Paragraph 1 of Schedule 3 (*Provisions for Meetings of Noteholders*) to the Existing Issuer Bond Trust Deed (as the context requires).

**"Facility Agent"** means any facility agent under any Authorised Credit Facility.

**"Facility B Agent"** means The Royal Bank of Scotland plc or any other entity appointed as Facility B Agent under the Facility B Agreement.

**"Facility B"** means the £96,100,000 term facility provided to AWL by the Facility B Providers.

**"Facility B Agreement"** means the facility B agreement between, among others, AWL as borrower and HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited, Royal Bank of Canada and The Royal Bank of Scotland plc as the Facility B Arrangers.

**"Facility B Arrangers"** means each of The Royal Bank of Scotland plc, HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited ABN 12 004 044 937 and Royal Bank of Canada as arrangers under the Facility B Agreement.

**"Facility B Finance Document"** has the meaning given to the term "Facility B Finance Document" in the Facility B Agreement.

**"Facility B Providers"** means each of HSBC Bank plc, Lloyds TSB Bank plc, National Australia Bank Limited ABN 12 004 044 937, Royal Bank of Canada and The Royal Bank of Scotland plc or any

successor thereto (together, the "**Facility B Providers**") that have agreed to provide a term facility to AWL under the terms of the Facility B.

"**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 Conditions 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 Existing Issuer Bond Trust Deed;
- (d) the Bonds (including the applicable Final Terms or Drawdown Prospectus, as applicable);
- (e) the Existing Issuer Bonds (including the applicable final terms);
- (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 Existing 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) the Facility B Finance Documents;
- (t) any other Authorised Credit Facilities; and
- (u) each agreement or other instrument between the Programme Issuer, AWL or the Existing 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 Programme Issuer, the Existing 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).

**"Fixed Coupon Amount"** means the amount specified as such in the relevant Final Terms or Drawdown Prospectus.

**"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 Existing Issuer Bonds from time to time.

**"Fixed Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

**"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*).

**"Form of Transfer"** means the form of transfer endorsed on an Individual Bond Certificate in the form or substantially in the form set out in Part A (*Form of Global Bond Certificate*) and Part B (*Form of Individual Bond Certificate*) of Schedule 3 to the Bond Trust Deed.

**"FPL Principles"** has the meaning given to it in Chapter 6 "*Regulation of the Water Industry in England and Wales*".

**"FSMA"** means the Financial Services and Markets Act 2000.

**"Global Bond"** means a Temporary Global Bond and/or a Permanent Global Bond, as the context may require.

**"Global Bond Certificate"** means a Registered Bond in global form in the form or substantially in the form set out in Part A (*Form of Global Bond Certificate*) of Schedule 3 to the Bond Trust Deed, together with such modifications (if any) as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms or Drawdown Prospectus (as applicable) annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States or to non-U.S. persons in reliance on Regulation S under the Securities Act, issued by the Programme Issuer pursuant to the Dealership Agreement or any other agreement between the Programme Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

**"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 Programme Issuer and the Existing 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 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 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 Programme Issuer and/or the Existing 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 Transaction"** means any Treasury Transaction evidenced by a confirmation entered or to be entered into pursuant to a Hedging Agreement by the Programme Issuer and/or the Existing Issuer and/or AWL with a Hedging Counterparty in accordance with the Hedging Policy, and references to **"Hedging Transactions"** shall be construed accordingly.

**"Hedging Policy"** means the initial hedging policy applicable to AWL, the Programme Issuer and the Existing 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 Programme Issuer, the Existing Issuer and, in certain circumstances, the Hedging Counterparties, in accordance with the STID.

**"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.

**"Indexed Bond"** means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Programme Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms or Drawdown Prospectus (as applicable)).

**"Index Event"** has the meaning given to it in Condition 8(c) (*Redemption for Index Event, Taxation and Other Reasons*)

**"Index Figure applicable"** has the meaning given to it in Condition 7(a) (*Definitions*).

**"Index Ratio"** has the meaning given to it in Condition 7(a) (*Definitions*).

**"Individual Bond Certificate"** means a Registered Bond in definitive form issued or, as the case may require, to be issued by the Programme Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Programme Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed, such Registered Bond in definitive form being in the form or substantially in the form set out in Part B (*Form of Individual Bond Certificate*) of Schedule 3 of the Bond Trust Deed having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms or Drawdown Prospectus (as applicable) endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.

**"Information Memorandum"** means (a) any information memorandum or prospectus prepared by or on behalf of, and approved by, the Programme Issuer and each of the other Obligors in connection with the establishment of the Programme and/or the issue of the Bonds; or (b) any information memorandum or prospectus prepared by or on behalf of and approved by the Programme Issuer and each of the other Obligors in connection with the general syndication in the interbank market of any Authorised Credit Facility, as applicable.

**"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).

**"Initial Existing Issuer/AWL Loan Agreement"** means the loan agreement entered into between the Existing Issuer and AWL on or about the Closing Date.

**"Initial Issue Date"** means the date of issue of the first Class and/or Sub-Class of Bonds under the Programme.

**"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 Programme Issuer, or the Existing 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 Programme Issuer or the Existing 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 Programme Issuer or the Existing 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 Programme Issuer or the Existing Issuer, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);
- (g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;
- (h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or
- (i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person.

**"Insolvency Official"** means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company's assets or in respect of any arrangement or composition with creditors.

**"Insolvency Proceedings"** means, in respect of any company, the winding-up, liquidation, dissolution, administration of such company or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

**"Instalment Amount"** has the meaning given to it in Condition 6(f) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*).

**"Instalment Bonds"** has the meaning given to it in the Conditions.

**"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 Amount"** has the meaning given to it in Condition 6(l) (*Definitions*).

**"Interest Commencement Date"** means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms or Drawdown Prospectus (as applicable) from (and including) which such Bonds bear interest, which may or may not be the Issue Date.

**"Interest Determination Date"** means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the Relevant Currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined herein) specified in the relevant Final Terms or Drawdown Prospectus) or, in the case of Indexed Bonds, the first Business Day on which it is practicable to calculate the Index Ratio applicable to the relevant Calculation Date in accordance with Condition 7(a).

**"Interest Payment Date"** means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.

**"Interest Period"** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

**"Interest Rate 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.

**"Interest Rate"** means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, the Conditions and/or the relevant Final Terms or Drawdown Prospectus.

**"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 Determination"** has the meaning given to it in Condition 6(b) (*Interest on Floating Rate Bonds*).

**"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.

**"ISDA Rate"** has the meaning given to it in Condition 6(b) (*Interest on Floating Rate Bonds*).

**"Issue Date"** means the date of issue of any Series of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and AWL, the Programme Issuer or, as the case may be, the Existing Issuer makes a utilisation of that facility.

**"Issue Price"** means the price as stated in the relevant Final Terms or Drawdown Prospectus (as applicable), generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.

**"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% irredeemable consolidated debenture stock with an outstanding amount of approximately £9,000 on the Closing Date;
- (b) 4% irredeemable debenture stock with an outstanding amount of approximately £1,000 on the Closing Date;
- (c) 4.25% irredeemable debenture stock with an outstanding amount of approximately £1,000 on the Closing Date;
- (d) 5% irredeemable debenture stock with an outstanding amount of approximately £20,000 on the Closing Date; and
- (e) 5.25% 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 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 Existing Issuer Bonds); 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 Existing Issuer Bonds.

"**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.

"**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 Existing Issuer Bonds issued by or any other Authorised Credit Facility provided to, the Programme Issuer, the Existing 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.

**"listed"** means that Bonds have been admitted to trading on the Market and have been admitted to the Official List.

**"Listing Rules"** means the Listing Rules of the Financial Services 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 Services 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.

**"Margin"** means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or Drawdown Prospectus.

**"Market in Financial Instruments Directive"** means Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

**"Market"** means London Stock Exchange.

**"Master Definitions Agreement"** or **"MDA"** means a master definitions agreement to be entered into on or about 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 Programme Issuer, the Existing 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.

"**Maximum Indexation Factor**" means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus.

"**Maximum Interest Rate**" means the rate specified as such in the relevant Final Terms or Drawdown Prospectus.

"**Member State**" means a member state of the European Union.

"**Minimum Indexation Factor**" means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus.

"**Minimum Interest Rate**" means the rate specified as such in the relevant Final Terms or Drawdown Prospectus.

"**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.

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

"**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.

**"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 Programme Issuer and the Existing 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.

"**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 Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;
- (c) those Bonds which have been purchased and cancelled in accordance with Conditions 8(f) (*Purchase of Bonds*) and 8(h) (*Cancellation*);
- (d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);
- (e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);
- (f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and
- (g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bonds or another Global Bond and, in the case of Registered Bonds, any Global Bond Certificate to the extent that it shall have been exchanged for Individual Bond 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*), 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 Existing Issuer Bonds, all the Existing Issuer Bonds issued other than:

- (a) those Existing Issuer Bonds which have been redeemed pursuant to the Existing Issuer Bond Trust Deed;
- (b) those Existing Issuer 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 Existing Issuer Bond Trustee or to the paying agent in the manner provided in the agency agreement (and where appropriate notice to that effect has been given to the relative Existing Issuer Bondholders in accordance with Condition 15 (*Notices*)) and remain available for payment against presentation of the relevant Existing Issuer Bonds;
- (c) those Existing Issuer Bonds which have been purchased and cancelled in accordance with Conditions 5(g) (*Purchase*) and 5(h) (*Cancellation*);
- (d) those Existing Issuer Bonds 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 Existing Issuer Bonds which have been surrendered and 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 Existing Issuer Bonds outstanding and without prejudice to the status for any other purpose of the relevant Existing Issuer Bonds) those Existing Issuer Bonds 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 Existing Issuer 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 Existing Issuer Bonds;

- (ii) the determination of how many and which Existing Issuer Bonds 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 Bondholders*) to the Existing Issuer Bond Trust Deed;
- (iii) any discretion, power or authority (whether contained in the Existing Issuer Bond Trust Deed or vested by operation of law) which the Existing Issuer Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Existing Issuer Bonds; and
- (iv) the determination by the Existing Issuer Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Existing Issuer Bonds,

those Existing Issuer Bonds 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 Existing Issuer Bonds, 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.

**"Page"** means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**")) as may be specified in the relevant Final Terms or Drawdown Prospectus as a Relevant Screen Page, and, if such page is unavailable, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices.

**"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 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 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 Obligor 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.

**"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 Bond"** means in relation to any Sub-Class of Bearer Bonds issued under the Programme, (i) a global bond in the form or substantially in the form set out in Part B (*Form of Permanent Global Bond*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed with such modifications (if any) as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealer(s), together with the copy of each applicable Final Terms or the Drawdown Prospectus (as applicable) annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Programme Issuer pursuant to the Dealership Agreement or any other agreement between the Programme Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

**"Permitted Acquisition"** means any of the following carried out by 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 Existing Issuer Bonds) 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:

- (a) such book debts are sold to a person or persons whose business is the recovery of debts;
- (b) AWL has made a prudent provision in its accounts against the non-recoverability of such debts;
- (c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against AWL has expired; and
- (d) 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 length 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 Programme Issuer/AWL Loan Agreements or the Existing 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 Programme Issuer, the Existing 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 Existing 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 Programme Issuer and the Existing 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 Programme Issuer, the Existing 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 Programme Issuer or the Existing 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 (A) 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 Programme Issuer, the Existing 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 Obligors 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**" has the meaning given to it in Condition 6(l) (*Definitions*).

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

"**Proceeds**" means the aggregate of all receipts or recoveries by the Security Trustee pursuant to, or upon enforcement of, any of the Rights (including pursuant to clause 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.

"**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 DSR Proportion**" means a proportion of the Class A Required Balance attributable to the Programme Issuer in such allocations as AWL shall determine.

"**Programme Issuer/AWL Loan Agreement**" means any loan agreement entered into between the Programme Issuer as lender and AWL as borrower.

"**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 Directive**" means Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, as amended.

"**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.

"**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-TestPeriod.

**"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 Existing Issuer Bondholders;
- (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 the Facility B Agreement, the Facility B Providers;
- (c) 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 U.K. 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 Programme Issuer or the Existing 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 Existing Issuer Bonds that, in respect of any matter where such confirmation is required, the credit rating of the Class A Bonds and the Existing Issuer Bonds 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.

"**Receipt**" means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal such receipt being in the form or substantially in the form set out in Part D (*Form of Receipt*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed or in such other form as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Receipts or Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**Receiptholders**" means the persons who are for the time being holders of the Receipts.

"**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.

"**Record Date**" means has the meaning given to it in Condition 9(b) (*Registered Bonds*).

"**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 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms or Drawdown Prospectus.

"**Redenomination Date**" has the meaning given to it in Condition 19(a) (*Notice of Redenomination*).

"**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 8(b) (*Optional Redemption*).

"**Reference Gilt**" means the Treasury Stock specified as such in the relevant Final Terms or Drawdown Prospectus for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Programme Issuer and approved by the Bond Trustee (an "**Indexation Adviser**").

"**Register**" means a register of the Bondholders of a Class and/or Sub-Class of Registered Bonds.

"**Registered Bonds**" means those of the Bonds which are for the time being in registered form.

"**Registered Global Bond**" has the meaning given to it in the Conditions and the Bond Trust Deed.

"**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.

"**Regulatory Information**" means the regulatory accounts AWL is required to submit to Ofwat in June of each year.

"**Regulation S**" has the meaning given to such term in the Securities Act.

**"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 6(l) (*Definitions*).

**"Relevant Dealer"** means, in relation to the Closing Date, the Arranger, and in relation to a Relevant Subscription Agreement which is made between the Programme Issuer and more than one Dealer after the Closing Date, the institution specified as such in the relevant Final Terms or Drawdown Prospectus (as applicable) and/or in such Relevant Subscription Agreement; and, in relation to a Relevant Subscription Agreement which is made between the Programme Issuer, AWL, AWHL and a single Dealer, such Dealer.

**"Relevant Inflation Rate"** has the meaning given to it in Schedule 4 (*Covenants*), Part 3 (*General Covenants*), Paragraph 11 (*Financial Indebtedness*) of the CTA.

**"Relevant Financial Centre"** means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable).

**"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 Prospectus is 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 Rate"** means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms or Drawdown Prospectus).

**"Relevant Screen Page"** means such page, section, caption, column or other part of a particular information service as may be specified.

**"Relevant Subscription Agreement"** means an agreement between, among others, each Obligor and any Dealer(s) for the sale by the Programme Issuer and the purchase or, as the case may be, subscription as

principal by such Dealer(s) (or on such other basis as may be agreed between the Obligors and the relevant Dealer(s) at the relevant time) of any Bonds, including any agreement in the form or based on the form set out in Schedule 7 (*Pro Forma Subscription Agreement*) to the Dealership Agreement.

**"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.

**"Relevant Time"** means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or Drawdown Prospectus or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre.

**"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

- (b) 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.

(e) **"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.

**"Reorganisation Plan"** means the implementation by AWL on or around the Closing Date of a reorganisation of the corporate and intra-group debt structure of the Affinity Group to facilitate, among other things, the creation of the Financing Group;

**"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 Ernst & Young 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 shall be 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 Existing Issuer Bond Trustee Reserved Matters 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 Chargers"** means AWL, the Programme Issuer, the Existing 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 Programme Issuer, the Existing 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 Programme Issuer, the Existing 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 Hedge payments to be made by the Programme Issuer, the Existing 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.

**"Screen Rate Determination"** has the meaning given to it in Condition 6(b) (*Interest on Floating Rate Bonds*).

**"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 Existing Issuer Bond Trustee (in its own capacity and on behalf of the Existing Issuer Bondholders);
- (d) the Bondholders;
- (e) the Existing Issuer Bondholders;
- (f) the Finance Lessors;
- (g) the Hedging Counterparties;
- (h) the Programme Issuer;
- (i) the Existing 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 Facility B Providers;
- (q) the Liquidity Facility Providers;
- (r) each other Authorised Credit Provider;
- (s) the Cash Manager (other than where the Cash Manager is AWL);



- (t) the Standstill Cash Manager;
- (u) each Agent; and
- (v) 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 Programme Issuer and the Existing Issuer in respect of the Programme Issuer/AWL Loan Agreements and the Existing Issuer/AWL Loan Agreements respectively, the Security Trustee (acting on behalf of the Programme Issuer and the Existing 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 to be executed in favour of the Security Trustee by each of the Obligors on or about 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 Obligors 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 Providers**" means certain financial institutions assembled from time to time by the Affinity Group.

"**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 Arrangers"** means HSBC Bank plc, Lloyds TSB Bank plc, National Bank Australia Limited, Royal Bank of Canada and The Royal Bank of Scotland plc.

**"Senior Lenders"** means each Lender and Issuing Bank (under and as defined in the Senior Facilities Agreement) and each Lender (under and as defined in the Facility B Agreement).

**"Senior Lender Debtors"** means each Obligor (under and as defined in the Senior Facilities Agreement) and each Obligor (under and as defined in the Facility B 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 and the Facility B 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 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 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 "**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.

"**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 Programme Issuer and the Existing Issuer and "**Share Pledge**" means any one of them.

"**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.

"**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.

**"Specified Denomination"** means denomination to be specified in the Final Terms or Drawdown Prospectus (as applicable).

**"Specified Duration"** means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is specified, a period of time equal to the relative Interest Period.

**"Specified Interest Payment Date"** means the date(s) specified as such in the relevant Final Terms or Drawdown Prospectus.

**"Specified Period"** means the period(s) specified as such in the relevant Final Terms or Drawdown Prospectus.

**"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 Programme Issuer and the Existing 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 Existing Issuer Bonds); 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 Existing Issuer Bonds.

**"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 Bonds"** means the Bonds of each Sub-Class denominated in sterling.

**"Sterling"** or "sterling" means the lawful currency of the United Kingdom.

**"STID"** means the security trust and intercreditor deed to be entered into on or about the Closing Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Existing Issuer Bond Trustee.

**"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 Existing Issuer Bonds 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 Existing Issuer Bonds, 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 Programme Issuer, the Existing 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 Programme Issuer or the Existing 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 an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 7 (*Pro Forma Subscription Agreement*) to the Dealership Agreement or in such other form as may be agreed between, among others, the Programme Issuer, the Existing Issuer and the Arranger or one or more Dealers (as the case may be).

**"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 Programme Issuer, the Existing 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 (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons or Receipts, as the case may be, appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) such talons being in the form or substantially in the form set out in Part F (*Form of Talon*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed or in such other form as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Receipts, Coupons and Talons*).

**"TARGET Settlement Day"** has the meaning given to such term in Condition 6(l) (*Definitions*).

**"TARGET System"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

**"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 to be entered into on or about the Closing Date by, among others, the Security Trustee, the Parent and the Obligors.

"**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 Bond**" means in relation to any Sub-Class of Bearer Bonds a temporary global bond in the form or substantially in the form set out in Part A (*Form of Temporary Global Bond*) of Schedule 2 (*Forms of Global and Definitive Bonds, Receipts, Coupons and Tables*) to the Bond Trust Deed together with the copy of the applicable Final Terms or Drawdown Prospectus (as applicable) annexed thereto, with such modifications (if any) as may be agreed between the Programme Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Programme Issuer pursuant to the Dealership Agreement or any other agreement between the Programme Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Test Period**" means:

- (a) the period of 12 months ending on 31 March in the then current year;
- (b) the period of 12 months starting on 1 April in the same year;
- (c) each subsequent 12 month period up to the Date Prior; and
- (d) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior,

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 Programme Issuer and the Existing 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 Programme Issuer and the Existing Issuer.

"**Transfer Agent**" means Deutsche Bank Luxembourg S.A. under the Agency Agreement, including any successors thereto.

"**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.

"**Transfer Scheme**" means a transfer scheme under Schedule 2 of the WIA.

"**Treasury Transaction**" means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or 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.

"**Trustee Acts**" means the Trustee Act 1925 and the Trustee Act 2000 of England and Wales.

"**U.K.**" means the United Kingdom.

"**U.S. dollar**", "**U.S.\$**", "**dollar**" and "**\$**" means the lawful currency of the United States of America.

"**UK Listing Authority**" or "**UKLA**" means the Financial Services 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.

"**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.

"**VWE**" means Veolia Water East Limited.

"**VWSE**" means Veolia Water Southeast Limited.

"**VWC**" means Veolia Water Central Limited.

"**WASC**" means water and sewerage companies.

"**Water Act**" means the Water Act 2003.

"**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 United Kingdom Water Industry Act 1991, as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999 and the Water Act.

"**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.

"**Zero Coupon Bond**" means a Bond specified as such in the relevant Final Terms or Drawdown Prospectus and on which no interest is payable.

"**\$**" means the lawful currency of the United States of America.

"**£**" means the lawful currency of the United Kingdom

"**30/360**" has the meaning given to it in Condition 6(l) (*Definitions*).

"**30E/360 (ISDA)**" has the meaning given to it in Condition 6(l) (*Definitions*).

"**360/360**" has the meaning given to it in Condition 6(l) (*Definitions*).

## INDEX OF DEFINED TERMS

\$	vii, 238, 239	arm's length terms	179
£	vii, 239	Associate	179
€	vii, 192	Assumptions	180
120 Day Obligations	227	Auditors	176, 180
20 Day Obligations	226	Authorised Credit Facilities	116
2010 PD Amending Directive	172	Authorised Credit Facility	9, 180
30/360	128, 239	Authorised Credit Provider	180
30E/360	129	Authorised Credit Providers	116
30E/360 (ISDA)	129, 239	Authorised Investment Minimum Rating	180
360/360	128, 239	Authorised Investments	180
60 Day Obligations	226	Authorised Signatory	180
90 Day Obligations	226	Available Class A Headroom	181
A-1	180	Available Senior Headroom	181
accelerate	177	AWAHL	113, 181
acceleration	177	AWAL	110
Acceleration	177	AWE	181
Acceleration of Liabilities	177	AWHL	ii, 31, 120, 181
Accession Memorandum	177	AWL	ii, 31, 181
Account	177	AWL Business Plan	181
Account Bank	3, 178	AWL Central Region	32, 181
Account Bank Agreement	117, 178	AWL Change of Control	181
Account Bank Minimum Rating	177	AWL East Region	32
Accountholder	153	AWL Regions	32
Accounting Standards	177	AWL Southeast Region	32, 181
Accounts	98	AWL VAT Group	181
Acquisition Term Facility	217	AWSE	181
Act	121	AWSS	39, 181
Actual/360	128, 178	Base Cash Flows	62, 181
Actual/365	128	Base Currency	181
Actual/365 (Fixed)	178	Base Index Figure	133, 181
Actual/365 (Fixed)	128	Base RCV	222
Actual/Actual	128, 178	Basic Terms Modifications	145, 181
Actual/Actual (ICMA)	178	Bearer Bonds	iii, 117, 181
Actual/Actual (ICMA)	128	Board	174
Actual/Actual (ISDA)	178	Bond	182
Additional Secured Creditor	178	Bond Basis	128
Adjusted Lease Reserve Amount	178	Bond Certificates	182
Affected Liquidity Facility Provider	108	Bond Trust Deed	7, 115, 182
Affected Secured Creditor	178	Bond Trustee	iii, 2, 115, 182
Affiliate	132, 178	Bond Trustee Reserved Matters	182
Affinity Group	178	Bondholder	118, 153
Agency Agreement	115, 178	Bondholders	2, 182
Agent	179	Bonds	ii, 115, 182
Agent Bank	115, 179	Broken Amount	127, 182
Agents	141	Business	182
AMP Period	179	business day	142, 154
AMP5	40	Business Day	127, 182
AMP-5	179	Business Day Convention	182
AMP5 Period	179	Calculation Agency Agreement	116, 182
Ancillary Documents	179	Calculation Agent	116, 182
Annual Finance Charge	179	Calculation Amount	127, 182
Annual RCV Update	223	Calculation Date	133, 182
Applicable Accounting Principles	179	Calculation Period	128, 182
Appointed Business	179	Capital Expenditure	183
Ardleigh Arrangement	179	Capital Expenditure Facility	10, 183
Ardleigh Reservoir Committee	179	Capital Expenditure Facility Providers	183
arm's length	179	Capital Maintenance Expenditure	183
arm's length basis	179	Cash Cover Account	183

Cash Expenses.....	183	Court.....	188
Cash Manager.....	3, 183	Covenantors.....	113, 188
CCD.....	183	CP Agreement.....	97, 188
CCW.....	183	CRA Regulation.....	iii, 188
CD Amounts.....	99, 183	CRD.....	vi, 188
Chargor.....	183	CTA.....	8, 80, 187
Chargors.....	183	Currency Hedging Agreement.....	188
CIS.....	60, 183	date for payment.....	134
Class.....	iii, 115, 183	Date Prior.....	188
Class A Adjusted ICR.....	183	Day Count Fraction.....	128, 188
Class A Average Adjusted ICR.....	183	Dealer.....	ii, 189
Class A Bonds.....	115, 184	Dealers.....	ii, 2, 116, 170, 189
Class A Coupons.....	118, 184	Dealership Agreement.....	116, 170, 189
Class A Creditor.....	184	Debt Service Payment Account.....	189
Class A Debt.....	115, 184	Debt Service Reserve Account.....	189
Class A Debt Instructing Group.....	184	Decision Period.....	70, 189
Class A Debt Interest.....	184	Deed of Variation.....	189
Class A Debt Liquidity Shortfall.....	185	Default.....	189
Class A Debt Service Reserve Account.....	185	Default Situation.....	189
Class A DIG.....	184	Deferral of K.....	189
Class A DIG Representative.....	184	Definitive Bearer Bonds.....	150
Class A Hedging Agreement.....	185	Definitive Bond.....	189
Class A ICR.....	185	Definitive Notification.....	222
Class A Net Indebtedness.....	185	Definitive Registered Bond.....	115, 152, 189
Class A RAR.....	186	DEFRA.....	189
Class A Receipts.....	118, 186	Degrouping Tax Charge.....	113
Class A Required Balance.....	186	Determination Date.....	128, 189
Class A Talons.....	118, 186	Determination Period.....	128, 189
Class B Bonds.....	115, 186	DETR.....	190
Class B Coupons.....	118, 186	Different Price Control Mechanism.....	222
Class B Creditor.....	186	DIG Representative.....	190
Class B Debt.....	186	Direction Notice.....	190
Class B Debt Instructing Group.....	187	Directors.....	190
Class B Debt Liquidity Shortfall.....	187	Discharge Date.....	190
Class B Debt Service Reserve Account.....	187	Discretion Matter.....	69, 190
Class B DIG.....	187	Dissenting Creditor.....	190
Class B DIG Representative.....	187	Dissenting Notice.....	190
Class B Hedging Agreement.....	187	Distribution.....	190
Class B Receipts.....	118, 187	dollars.....	vii, 190
Class B Required Balance.....	187	Draft Water Bill.....	65, 190
Class B Talons.....	118, 187	Drawdown Prospectus.....	iii, 115
Clearing System Business Day.....	154, 187	DSR Liquidity Facilities.....	9, 108, 116
Clearstream, Luxembourg.....	iv, 118	DSR Liquidity Facility.....	190
Closing Date.....	116, 187	DSR Liquidity Facility Agreement.....	191
common carriage.....	64, 187	DSR Liquidity Facility Agreements.....	116
Common Documents.....	187	DSR Liquidity Facility Provider.....	191
Common Terms Agreement.....	80, 116, 187	DSR Liquidity Facility Providers.....	116
Companies Act.....	187	DWI.....	191
Compliance Certificate.....	188	Early Redemption Amount.....	191
Conditions.....	7, 115, 188	Emergency.....	191
Connected Party.....	72	Enforcement Action.....	191
Consortium of Equity Owners.....	31, 188	Enforcement Order.....	191
Contractor.....	188	Enhanced Rights Matter.....	69, 191
Control.....	188	Enterprise Act.....	22, 191
Controlled.....	188	Entrenched Rights.....	191
Controlling.....	188	Environmental Approvals.....	191
COPI.....	19	Environmental Claim.....	191
Coupon.....	188	Environmental Law.....	191
Couponholders.....	118, 188	Equipment.....	191
Coupons.....	118	Equivalent Amount.....	191

ESMA.....	iii, 191	Floating Rate Bonds.....	115
EU .....	191	Following Business Day Convention....	125, 196
EU Savings Directive .....	29, 191	Form of Transfer.....	196
EURIBOR .....	130	FPL Principles.....	15, 196
euro.....	vii, 130	FSMA .....	ii, ix, 196
Euro .....	vii, 192	Future Price Limits .....	15
Euro Exchange Date.....	148, 192	Global Bond.....	150, 196
Euro Exchange Notice.....	148, 192	Global Bond Certificate .....	196
Eurobond Basis.....	129, 192	Good Industry Practice .....	197
Euroclear .....	iv, 118	Grafham Water Arrangement.....	197
Event of Default .....	192	Gross Real Redemption Yield.....	137
Events of Default.....	96	Gross Redemption Yield.....	136
Excess Funds.....	104, 192	Guarantee.....	197
Exchange Rate.....	192	Guarantor .....	1, 197
Excluded Accounts.....	74, 192	Guarantors.....	1, 197
Existing Authorised Credit Providers.....	2, 192	Hedge Counterparties.....	116
Existing Dormant Subsidiaries .....	192	Hedging Agreement.....	197
Existing Finance Lease.....	192	Hedging Agreements .....	116, 197
Existing Finance Leases .....	192	Hedging Counterparties .....	197
Existing Finance Lessors.....	192	Hedging Counterparty.....	2, 197
Existing Hedge Counterparty .....	2	Hedging Counterparty Minimum Day 1 Rating Requirement.....	111
Existing Hedging Agreements.....	193	Hedging Counterparty Reserved Matters.....	197
Existing Hedging Counterparties.....	193	Hedging Policy .....	197
Existing Hedging Transaction .....	193	Hedging Transaction .....	197
Existing Issuer .....	ii, 193	Hedging Transactions .....	197
Existing Issuer Bond Trust Deed.....	193	HMRC.....	167
Existing Issuer Bond Trustee.....	2, 193	holder .....	118
Existing Issuer Bondholders.....	193	Holder .....	118
Existing Issuer Bonds.....	1, 193	Holding Company.....	197
Existing Issuer DSR Proportion .....	193	IDOK .....	18, 197
Existing Issuer/AWL Loan Agreement ..	80, 193	IFA.....	133
Existing Issuer/AWL Loan Agreements.....	193	Income .....	197
Existing Swap Transactions .....	110	Independent Enforcement Action .....	197
Expert.....	135	Independent Review.....	198
Extension Period.....	70, 193	Index .....	133, 134
Extraordinary Resolution.....	145, 193	Index Event.....	137, 198
F1.....	180	Index Figure.....	133, 134
Facility Agent.....	193	Index Figure applicable.....	133, 198
Facility B Providers.....	193	Index Ratio.....	133
Final Determination.....	193, 194	Indexation Adviser.....	134, 223
Final Terms .....	iii, 115, 194	Indexed Bond.....	198
Finance Documents .....	117, 194	Indexed Bonds .....	115
Finance Lease .....	195	Individual Bond Certificate.....	198
Finance Lease Documents.....	194	Information Memorandum.....	198
Finance Leases .....	194	Infracapital .....	31
Finance Lessor.....	195	infrastructure renewals charge .....	201
Finance Lessors .....	3, 195	Initial Date Representation .....	198
Finance Party.....	195	Initial Date Representations.....	81
Financial Indebtedness .....	195	Initial Existing Issuer/AWL Loan Agreement .....	199
Financial Ratio .....	195	Initial Issue Date .....	199
Financial Statements.....	196	Insolvency Act .....	199
Financial Year .....	196	Insolvency Event.....	199
Financing Group.....	196	Insolvency Official.....	199
Fitch.....	iii, 196	Insolvency Proceedings .....	199
Fitch Appointment Right.....	196	Instalment Amount.....	125, 200
Fixed Coupon Amount.....	130, 196	Instalment Bonds .....	115, 200
Fixed Interest Period .....	130, 196	Instrument of Appointment.....	1, 121, 200
Fixed Rate Bond.....	196	Instrument of Appointment Condition.....	200
Fixed Rate Bonds .....	115		
Floating Rate Bond.....	196		

Instruments of Appointment.....	52	materially prejudicial .....	69
Insurances.....	200	Matter Determination Dissenting Creditor....	204
Intellectual Property Right .....	200	Matter Determination Dissenting Notice .....	204
Intercreditor Arrangements .....	68, 200	Maturity Date.....	131, 204
interest.....	202, 206	Maximum Indexation Factor.....	134, 205
Interest Amount.....	130, 200	Maximum Interest Rate.....	131, 205
Interest Commencement Date .....	130, 200	MDA .....	204
Interest Determination Date .....	130, 200	Member State.....	205
Interest Payment Date .....	123, 200	Minimum Indexation Factor .....	134, 205
Interest Period .....	130, 200	Minimum Interest Rate .....	131, 205
Interest Rate.....	130, 201	Modified Following Business Day Convention	..... 125, 205
Interest Rate Hedging Agreement .....	200	Monthly Payment Amount.....	205
Intra-Group Debt Service Distribution.....	201	Moody's.....	iii, 205
Intra-Group Loans .....	201	MSI .....	31
Investment Grade .....	111, 201	necessary information .....	ix, 205
Investor Report.....	11, 201	Net Cash Flow .....	205
IRC .....	201	New Money Advance .....	206
ISDA Definitions.....	130, 201	Non-Appointed Business .....	206
ISDA Determination.....	124, 201	Non-Appointed Expense.....	206
ISDA Master Agreement.....	201	Non-Base Currency.....	206
ISDA Rate .....	124, 201	Non-Renewing Liquidity Facility Provider ..	108
Issue Date .....	4, 131, 201	notice.....	206
Issue Price .....	201	Notice.....	206
Issuing Bank .....	201	Notified Item.....	206
Joint Arrangers .....	179	Notional Amount .....	206
Joint Venture .....	201	Novation Agreement.....	206
K 201		O&M Reserve.....	206
Lease Calculation Cashflow .....	202	O&M Reserve Account.....	206
Lease Calculation Date.....	202	O&M Reserve Accounts .....	206
Lease Reserve Amount.....	202	O&M Reserve Facility.....	108, 206
Legacy Chertsey Security.....	202	O&M Reserve Facility Agreement .....	206
Legacy Debenture Stock.....	202	O&M Reserve Facility Provider .....	206
legitimate interest .....	65	O&M Reserve Required Amount .....	206
Letter of Credit .....	203	Obligor .....	1, 121, 207
LF Event of Default.....	109, 203	Obligors .....	ii, 1, 121, 207
LF Provider Minimum Short-term Rating....	203	October Section 13 Notice.....	55
Liability .....	203	Official List.....	ii, 207
LIBOR.....	131, 203	OFT.....	207
Limited Index Ratio.....	133	Ofwat .....	32, 207
Limited Indexation Factor .....	134	Operating Accounts .....	207
Limited Indexation Month.....	134	Order .....	v, 207
Limited Indexed Bonds .....	134	Other Finance Document .....	75, 207
Liquidity Facilities .....	203	Other Parties .....	vi, 207
Liquidity Facility.....	203	Outsourcing Agreement .....	207
Liquidity Facility Agent .....	203	Outstanding.....	207
Liquidity Facility Agreement .....	203	Outstanding Principal Amount.....	209
Liquidity Facility Provider .....	203	Out-turn Inflation.....	210
listed .....	ii, 204	Page.....	131, 210
Listing Rules .....	155, 204	Parent .....	210
London Stock Exchange.....	ii, 204	Pari Passu Interest Rate Hedging Agreements	..... 210
Majority Creditors .....	204	Participating Member State.....	131, 210
Make-Whole Amount.....	204	Party .....	210
Management Services Agreement .....	204	Paying Agents .....	3, 115, 210
Mandatory Cost Rate.....	204	Payment Date.....	210
margin.....	206	Payment Priorities.....	100, 210
Margin .....	131, 204	Periodic Information .....	210
Market .....	ii, 204	Periodic Review .....	211
Market in Financial Instruments Directiveii,	204	Periodic Review Effective Date.....	211
Master Definitions Agreement .....	117, 204		
Material Adverse Effect .....	204		

Periodic Review Period .....	211	Qualifying Secured Creditors.....	222
Permanent Global Bond .....	150, 211	Qualifying Secured Debt.....	222
Permitted Acquisition.....	211	Quorum Requirement.....	70, 222
Permitted Additional Issuer Subsidiary ....	1, 212	Rating Agencies .....	222
Permitted Book Debt Disposal .....	212	Rating Agency .....	222
Permitted Boundary Change.....	212	Rating Requirement .....	222
Permitted Disposal .....	212	RBS Group.....	166
Permitted Emergency Action .....	213	RBS plc.....	166
Permitted Existing Non-Appointed Business	213	RBSG.....	166
Permitted Existing Pension Scheme .....	213	RCV .....	97, 222
Permitted Financial Indebtedness.....	214	RCV Price Control Mechanism .....	222
Permitted Further Financial Indebtedness ...	214	Receipt .....	223
Permitted Hedging Termination .....	215	Receipholders .....	118, 223
Permitted Joint Venture.....	215	Receipts.....	118
Permitted Lease Termination .....	216	Recognised Ofwat Mechanism .....	223
Permitted Leasing Subsidiary.....	216	Record Date .....	140, 223
Permitted Legacy Loan.....	216	Recurring Fees .....	223
Permitted Legacy Payment.....	216	Redemption Amount.....	131, 223
Permitted New Non-Appointed Business.....	216	Redenomination Date.....	147, 223
Permitted Non Appointed Business Income.	217	Reference Bank.....	223
Permitted Non-Appointed Business .....	217	Reference Banks .....	131
Permitted Non-Appointed Business Limits..	217	Reference Date.....	136, 137, 138, 142, 143, 223
Permitted Payments.....	100, 217	Reference Gilt.....	134, 136, 137, 223
Permitted Post Closing Events .....	217	Register .....	118, 223
Permitted Security Interest .....	217	Registered Bonds .....	iii, 117, 223
Permitted Share Pledge Acceleration .....	219	Registered Global Bond.....	115, 223
Permitted Subsidiary .....	212, 219	Registered Global Bond.....	152
Permitted Tax Loss Transaction .....	219	Registrar.....	3, 115, 223
Permitted Volume Trading Arrangements....	219	Regulated Company.....	223
Potential Event of Default .....	219	Regulation S.....	223
Potential Trigger Event.....	219	Regulatory Information.....	223
pounds .....	vii, 220	Relevant Authorisation .....	224
Preceding Business Day Convention....	125, 220	Relevant Breach.....	224
Pre-Test Period.....	220	Relevant Change of Circumstance .....	223
Price Control Change .....	16, 220	Relevant Change of Circumstances .....	62, 224
Prime-1 .....	180	Relevant Currency .....	131, 224
Principal Amount Outstanding.....	131, 220	Relevant Date.....	132, 224
Principal Paying Agent.....	3, 115, 220	relevant Dealer .....	ii, 189
Proceeds .....	220	Relevant Dealer.....	224
Procurement Plan .....	220	relevant Dealer(s).....	189
Programme .....	ii, 115, 220	<b>Relevant Final Maturity Date .....</b>	<b>90, 91</b>
Programme Issuer.....	ii, 115, 220	Relevant Financial Centre.....	132, 224
Programme Issuer DSR Proportion .....	220	Relevant Implementation Date.....	171
Programme Issuer/AWL Loan Agreement....	79, 220	Relevant Inflation Date .....	224
Projected Operating Expenditure.....	220	Relevant Inflation Rate .....	90
Proposed Payment Amount .....	89, 220	Relevant Member State.....	171, 224
Prospectus.....	v, 220	relevant month .....	134
Prospectus Directive.....	iv, 155, 172, 220	relevant persons .....	v, 224
Protected Land.....	220	Relevant Rate.....	132, 224
PTP Amount.....	221	Relevant Screen Page.....	132, 224
Public Procurement Rules .....	221	Relevant Sections.....	225
Qualifying Bondholders .....	144	Relevant Subscription Agreement .....	224
Qualifying Class A Creditor.....	221	Relevant Termination Date .....	90, 91, 225
Qualifying Class A Debt .....	221	Relevant Time.....	132, 225
Qualifying Class B Creditor .....	221	relevant undertaker.....	179
Qualifying Class B Debt.....	222	Remedial Plan.....	225
Qualifying Debt.....	222	Remedy Period.....	70, 225
Qualifying Lender .....	222	Remedy Start Date .....	227
Qualifying Secured Creditor.....	222	Rental .....	227
		Rental Payment Date.....	227

Rental Period.....	227	Senior RAR Restructuring Event.....	97
Reorganisation Plan.....	227	Senior Term Facility.....	233
Repeated Representations.....	81, 227	Senior Term Facility Providers.....	233
Replacement Value.....	222	Series.....	iii, 115, 233
Reporter.....	227	Settlement and Acknowledgement Deed.....	233
Reporting Accountants.....	227	Share Pledge.....	233
Representative.....	227	Share Pledges.....	233
Representative Amount.....	132, 227	Shared Services Agreement.....	233
Request.....	227	Shipwreck Clause.....	233
Required Balance.....	227	Shortfall Paragraph.....	106, 233
Required Sterling Amount.....	227	SIM.....	36, 233
Reservations.....	227	Special Administration.....	233
Reserved Matters.....	228	Special Administration Order.....	233
Restricted Chargors.....	228	Special Administration Petition Period.....	57, 234
Restricted Payment.....	228	Special Administrator.....	234
Restricted Payment Condition.....	228	Specified Denomination.....	132, 234
Restricted Secured Liabilities.....	228	Specified Duration.....	132, 234
Retail Price Index.....	228	Specified Interest Payment Date.....	132, 234
Reuters.....	131, 210	Specified Period.....	132, 234
Revolving Credit Facility.....	228	Standard & Poor's.....	iii, 234
Rights.....	228	Standby Drawing.....	108, 234
Rolling Average Period.....	228	Standstill.....	73, 234
RPI.....	228	Standstill Cash Manager.....	3, 234
RPI Linked Hedging Agreement.....	229	Standstill Event.....	234
RPI Linked Hedging Transaction.....	229	Standstill Extension.....	234
RPI <sub>m-2</sub> .....	133	Standstill Period.....	73, 235
RPI <sub>m-3</sub> .....	133	Standstill Remedy.....	73, 235
RPI <sub>m-7</sub> .....	133	Statement.....	55
RPI <sub>m-8</sub> .....	133	Statutory Accounts.....	235
S&P.....	229, 234	sterling.....	vii, 235
Scheduled Debt Service.....	229	Sterling.....	vii, 235
Screen Rate Determination.....	123, 229	Sterling Bonds.....	147, 235
SDLT clawback.....	113	STID.....	8, 116, 235
Secondary Tax Liability.....	113	STID Direct Voting Matter.....	71, 235
Secretary of State for the Environment.....	229	STID Directions Request.....	235
Section 13 Notice.....	54, 229	STID Matter.....	235
Secured Creditor Representative.....	230	STID Proposal.....	68, 235
Secured Creditors.....	116	Stock Exchange.....	235
Secured Liabilities.....	230	Sub-Class.....	iii, 235
Securities Act.....	i, 230	Sub-Classes.....	115
SECURITIES ACT.....	171	Subordinated Authorised Loan Amounts.....	235
Security.....	8, 116, 120, 230	Subordinated Creditor.....	235
Security Agreement.....	8, 106, 116, 120, 230	Subordinated Debt.....	235
Security Assets.....	230	Subordinated Liquidity Facility Amounts.....	235
Security Documents.....	116, 230	Subordinated Step-up Fee Amounts.....	236
Security Interest.....	230	Subscription Agreement.....	236
Security Trustee.....	2, 116, 231	Subsidiary.....	236
Security Trustee Reserved Matters.....	231	Super-Senior Interest Rate Hedging Agreement.....	236
self-lay.....	64, 231	Super-Senior RPI Linked Hedging Agreement.....	236
Senior Adjusted ICR.....	231	Swap Collateral Account.....	98, 236
Senior Average Adjusted ICR.....	231	Talonholders.....	118, 236
Senior Debt.....	231	Talons.....	118, 236
Senior Debt Interest.....	231	TARGET Settlement Day.....	132, 236
Senior Facilities Agent.....	231	TARGET System.....	236
Senior Facilities Agreement.....	231	TARGET2.....	132, 236
Senior Facilities Agreement Provider.....	2	Tax.....	236
Senior Facilities Agreement Providers.....	2, 231	Tax Credit.....	236
Senior Facilities Arrangers.....	232	Tax Deed of Covenant.....	236
Senior Net Indebtedness.....	232		
Senior RAR.....	233		



taxable .....	236	U.S. dollars .....	vii, 238
taxation .....	236	U.S.\$ .....	vii, 238
Taxes .....	236	UK Listing Authority .....	ii, 238
TDC Breach .....	237	UKLA .....	ii, 238
TDC Event .....	237	Ultimate Controller .....	45, 238
TEFRA C Rules .....	150, 237	unit .....	125
TEFRA D Rules .....	150, 237	Unrestricted Chargor .....	238
Temporary Global Bond .....	150, 237	Unrestricted Chargors .....	238
Test Period .....	237	Unrestricted Secured Liabilities .....	238
the Bank .....	166	VAT .....	238
the holding company .....	166	Voted Qualifying Class A Debt .....	238
the Royal Bank .....	166	Voted Qualifying Class B Debt .....	238
Threshold Class A RAR .....	237	Voted Qualifying Secured Debt .....	238
Threshold Senior RAR .....	237	Voting Matters .....	239
totex .....	66, 237	VUKPP .....	42, 239
Tranche .....	iii, 115, 237	VWC .....	239
Transaction Account .....	237	VWE .....	239
Transaction Agent .....	237	VWSE .....	239
Transaction Documents .....	237	WASC .....	239
Transfer Agent .....	3, 237	WASCs .....	40
Transfer Agents .....	115	Water Act .....	239
Transfer Scheme .....	238	Water Framework Directive .....	63, 239
Transitional Agreements .....	237	Water Regulations .....	37, 239
Transparency Directive .....	175, 238	Water White Paper .....	65, 239
Treasury Transaction .....	238	WIA .....	239
Trigger Credit Rating .....	95	Working Capital Facility .....	10, 239
Trigger Event .....	238	Working Capital Facility Providers .....	239
Trigger Event Ratio Levels .....	238	WRA .....	239
Trust Corporation .....	238	WSL .....	17, 239
Trustee Acts .....	238	WSRA .....	207, 239
U.K. ....	238	Zero Coupon Bond .....	239

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