

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB

STID Proposal

To: Deutsche Trustee Company Limited (the “**Security Trustee**”)
From: Affinity Water Limited (the “**Transaction Agent**” and “**AWL**”)
Date: 22 May 2015
Re: Affinity Water Limited – CCD / IRC STID Proposal

Dear Sirs

We refer to clause 8.1 (*Instigation of STID Proposal*) of the Security Trust and Intercreditor Deed dated 4 February 2013 between, among others, the Transaction Agent and the Security Trustee (the “**STID**”). This is a STID Proposal in respect of a proposed amendment to certain Finance Documents following a change in the regulation of the water and sewerage industry in the United Kingdom as a result of the Periodic Review in respect of the new Periodic Review Period which commenced on 1 April 2015 and the adoption by AWL of FRS101 as from 31 March 2015 (the “**STID Proposal**”).

Capitalised terms used but not defined herein have the meanings given to them in the master definitions agreement dated 4 February 2013 between, among others, the Transaction Agent and the Security Trustee (the “**MDA**”) and the common terms agreement dated 4 February 2013 between, among others, the Transaction Agent and the Security Trustee.

1 Reason for the STID Proposal

In calculating its “Adjusted ICR” covenants (for both Senior and Class A, and on a single year and rolling three year average basis), CCD (Current Cost Depreciation) and IRC (Infrastructure Renewals Charge) are subtracted from the relevant net cash flow amount.

For the five-year Periodic Review Period which commenced on 1 April 2015 (“**AMP6**”), Ofwat will cease to publish CCD and IRC. As the definitions of CCD and IRC refer to the relevant values as published by Ofwat, when testing the ratios applicable in the context of the “Adjusted ICR” covenants in respect of AMP6 and future Periodic Review Periods, no figure would be taken into account for either CCD or IRC on the terms of the current ratios.

AWL is committed to its relationship with its investors and therefore wishes to offer additional new post-maintenance cash cover ratios and a connected information covenant to address this issue. These new covenants will relate to Test Periods from 1 April 2015 onwards, being the start of the new Periodic Review Period.

This STID Proposal is a “Relevant STID Proposal”.

2 Detail of the STID Proposal

2.1 CTA amendments for additional financial ratios

As explained in paragraph 1 above, the Transaction Agent requests amendments to the CTA as follows:

2.1.1 an amendment to paragraph 2(a) (*Compliance Certificate*) of Part 1 (*Information Covenants*) of Schedule 4 (*Covenants*) to the CTA to replace the letter “g” in the phrase “items (a) to (g) of Paragraph 2” with the letter “k”, so that it reads “items (a) to (k) of Paragraph 2”;

2.1.2 an amendment to paragraph 2 (*Financial Ratios*) of Part 2 (*Financial Covenants*) of Schedule 4 (*Covenants*) to the CTA, so that the word “and” at the end of limb (f) is deleted and the full stop at the end of limb (g) is replaced with “;”, and the following are added as new limbs (h) to (k):

“(h) the Conformed Class A Adjusted ICR for each Test Period;

(i) the Conformed Senior Adjusted ICR for each Test Period;

(j) the Conformed Class A Average Adjusted ICR for each Test Period; and

(k) the Conformed Senior Average Adjusted ICR for each Test Period.”;

2.1.3 an amendment to paragraph 1 (*Financial Ratios*) of Part 1 (*Trigger Events*) of Schedule 5 (*Trigger Events*) to the CTA so that the word “or” at the end of limb (e) is deleted and the full stop at the end of limb (f) is replaced with “;”, and the following are added as new limbs (g) to (j):

“(g) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;

(h) the Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;

(i) the Conformed Class A Average Adjusted ICR for any Test Period is or is estimated to be less than 1.4:1; or

(j) the Conformed Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1.”;

2.1.4 an amendment to paragraph 1 (*Financial Ratios*) of Part 3 (*Trigger Event Remedies*) of Schedule 5 (*Trigger Events*) to the CTA so that the word “or” at the end of limb (e) is deleted and the full stop at the end of the limb (f) is replaced with “;”, and the following are added as new limbs (g) to (j):

“(g) the Conformed Class A Adjusted ICR for each Test Period is or is estimated to be greater than 1.3:1;

(h) the Conformed Senior Adjusted ICR for each Test Period is or is estimated to be greater than 1.1:1;

(i) the Conformed Class A Average Adjusted ICR is or is estimated to be greater than 1.4:1; or

(j) the Conformed Senior Average Adjusted ICR is or is estimated to be greater than 1.2:1.”;

- 2.1.5 an amendment to paragraph 16 (*Ratios*) of Part 2 (*Events of Default (Non-AWHL)*) of Schedule 6 (*Events of Default*) to the CTA so that the words “and/or” at the end of limb (b) is deleted, the full stop at the end of limb (c) is replaced with “; and/or”, and the following is added as a new limb (d):

“(d) the Conformed Class A Adjusted ICR is less than 1:1.”;

- 2.1.6 an amendment to paragraph 2(a) of Schedule 8 (*Form of Compliance Certificate*) and paragraph 1 of Schedule 9 (*Form of Investors Report*) to the CTA so that the following ratios are added to the table in paragraph 2 of Schedule 8 and the table in paragraph 1 of Schedule 9, as follows:

| | | | | | |
|--|--|--|--|--|--|
| Conformed Class A Adjusted ICR | | | | | |
| Conformed Senior Adjusted ICR | | | | | |
| Conformed Class A Average Adjusted ICR | | | | | |
| Conformed Senior Average Adjusted ICR | | | | | |

- 2.1.7 an amendment to paragraph 4 of Schedule 8 (*Form of Compliance Certificate*) and paragraph 3 of Schedule 9 (*Form of Investors Report*) to the CTA so that the following ratios are added as additional limbs (h) to (k) in paragraph 4 of Schedule 8 and paragraph 3 of Schedule 9:

“(h) Conformed Class A Adjusted ICR

[insert in reasonable detail the computations necessary to demonstrate compliance]

(i) Conformed Senior Adjusted ICR

[insert in reasonable detail the computations necessary to demonstrate compliance]

(j) Conformed Class A Average Adjusted ICR

[insert in reasonable detail the computations necessary to demonstrate compliance]

(k) Conformed Senior Average Adjusted ICR

[insert in reasonable detail the computations necessary to demonstrate compliance]”.

2.2 MDA amendments for additional financial ratios

- 2.2.1 The Transaction Agent requests amendments to the MDA to add the following new definitions in Part 1 (*Definitions*) of Schedule 2 (*Common Definitions*) (please note that, for Secured Creditors’ ease of review, the below definitions are shown as comparisons against the current relevant definitions used in the calculation of the

existing financial ratios with additions shown in blue underline and deletions shown in red strike-through; these definitions will be entirely new, however, and in addition to the existing definitions):

“Capitalised Infrastructure Renewals Expenditure” means, in relation to a period of time, without double counting to the extent that such items represent expenditure already included in appointed operating expenditure or non-appointed operating expenditure or are included within the determination of RCV Depreciation, the amount of infrastructure renewals expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the AWL Business Plan).

“Conformed Class A Adjusted ICR” means, in respect of a Test Period, the ratio of

- (i) Net Cash Flow *less* the aggregate of RCV Depreciation and Capitalised Infrastructure Renewals Expenditure ~~CCD and IRC~~ during such Test Period
to
- (ii) Class A Debt Interest during such Test Period.

“Conformed Class A Average Adjusted ICR” means the sum of:

- (i) the ratios of:
 - (a) Net Cash Flow *less* the aggregate of RCV Depreciation and Capitalised Infrastructure Renewals Expenditure ~~CCD and IRC~~ during such Test Period
to
 - (b) Class A Debt Interest,for each of the Test Periods comprised in a Rolling Average Period,
- (ii) divided by three.

“Conformed Senior Adjusted ICR” means, in respect of a Test Period, the ratio of:

- (i) Net Cash Flow *less* the aggregate of RCV Depreciation and Capitalised Infrastructure Renewals Expenditure ~~CCD and IRC~~ during such Test Period
to
- (ii) Senior Debt Interest during such Test Period.

“Conformed Senior Average Adjusted ICR” means the sum of:

- (i) the ratios of:
 - (a) Net Cash Flow *less* the aggregate of RCV Depreciation and Capitalised Infrastructure Renewals Expenditure ~~CCD and IRC~~
to
 - (b) Senior Debt Interest,for each of the Test Periods comprised in a Rolling Average Period

(ii) divided by three.

“RCV Depreciation” means, in relation to any period of time, the “total RCV run-off” (or other term(s) used to mean the depreciation charges applicable to the RCV) in respect of such period (interpolated as necessary for Out-turn Inflation) as last determined and notified to AWL by Ofwat at the most recent Periodic Review or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a Periodic Review.

2.2.2 The Transaction Agent requests an amendment to the definition of “Financial Ratio” so that the word “and” at the end of limb (e) is deleted and the full stop at the end of limb (f) is replaced with “;”, and the following are added as new limbs (g) to (j):

“(g) the Conformed Class A Adjusted ICR;

(h) the Conformed Senior Adjusted ICR;

(i) the Conformed Class A Average Adjusted ICR; and

(j) the Conformed Senior Average Adjusted ICR.”.

2.2.3 The Transaction Agent requests an amendment to limb (f) in the definition of “Permitted Further Financial Indebtedness” so that the existing limb (f) is amended as follows (please note that, for Secured Creditors’ ease of review, the below amendments are shown as comparisons against the current definition with additions shown in blue underline):

“(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 and the Conformed 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 each be equal to or greater than 1.30:1”.

2.2.4 The Transaction Agent requests an amendment to the definition of “Test Period” so that the full stop at the end of definition is replaced with “;”, and the following is added to the end of the definition:

“and **provided that**, for the Calculation Dates falling on 31 March 2015 and 30 September 2015, the first Test Period in respect of Conformed Class A Adjusted ICR, Conformed Senior Adjusted ICR, Conformed Class A Average Adjusted ICR and Conformed Senior Average Adjusted ICR only shall be 1 April 2015 to 31 March 2016, with, for the avoidance of doubt, all subsequent Test Periods following thereafter.”

2.3 CTA amendments for additional information covenant

The Transaction Agent requests an amendment to the CTA to add an additional information covenant as paragraph 11 of Part 1 (*Information Covenants*) of Schedule 4 (*Covenants*) to the CTA as follows:

“11. AWL shall include in each Investor Report such additional information (financial, accounting and regulatory), including details of the infrastructure renewals expenditure, as in its reasonable opinion will allow investors to relate the relevant financial ratios contained in that Investor Report and the Compliance

Certificate to the most recent Final Determination and the Financial Statements supplied with it (including any regulatory depreciation, pay-as-you go ratio/percentage, totex or RCV information and any opex, capex or other accounting information).”

3 Statement in respect of consents required for the STID Proposal

AWL certifies to the Security Trustee that in its opinion:

- (i) this STID Proposal is in respect of a Voting Matter under clause 8.2.2 (*Minimum requirements of STID Proposal*) of the STID and only the consent of the Majority Creditors is required to implement the STID Proposal; and
- (ii) the amendments described in this STID Proposal are not in respect of an Entrenched Right and, as such, do not require the consent of any other Secured Creditor pursuant to the Entrenched Rights in the STID.

AWL seeks the approval of the Security Trustee by 15 June 2015, being 15 Business Days from the date of delivery of this STID Proposal to the Security Trustee, provided that this period shall be extended by a period of five Business Days (in accordance with clause 8.10 (*Quorum Requirement for Voting Matters*) of the STID) if the Quorum Requirement has not been satisfied by the above mentioned date.

AWL hereby proposes that the Security Trustee asks the applicable Secured Creditors to consider voting in favour of the matters set out in this STID Proposal.

4 Implementation of the STID Proposal

Upon confirmation by the Security Trustee that the Quorum Requirement for a Voting Matter has been satisfied, and that the resolution in respect of the Voting Matter set out in this STID Proposal has been passed by the Majority Creditors pursuant to clause 8.11 (*Requisite majority in respect of a Voting Matter*) of the STID, the MDA and the CTA will be amended as set out in paragraph 2 (*Detail of the STID Proposal*) above by the execution of amendment and restatement agreements and, pursuant to clause 8.12 (*Binding Decisions of DIG Representatives*) of the STID, such amendments will bind the Secured Creditors.

This STID Proposal shall constitute a certificate for the purposes of clauses 8.20 (*Certificate Conclusive*) and 18.4 (*Protections*) of the STID.

Yours faithfully,

Affinity Water Limited

By:



Director