

AFFINITY WATER INVESTOR UPDATE





NOVEMBER 2017



Contents

1	INTRODUCTION & COMPANY OVERVIEW	3
2	OUR AMP6 COMMITMENTS	8
3	2016/17 PERFORMANCE	14
4	RETAIL NON-HOUSEHOLD BUSINESS	18
5	PR19	20
6	BOND FINANCING OVERVIEW	23
7	BOND ISSUE PROPOSAL	28
8	APPENDIX	30

Affinity Water Contacts

	<p>Simon Cocks simon.cocks@affinitywater.co.uk</p>	<p>CEO Appointed CEO of Affinity Water in June 2015</p>
	<p>Stuart Ledger 01707 277211 stuart.ledger@affinitywater.co.uk</p>	<p>CFO Appointed CFO of Affinity Water in October 2017</p>
	<p>Nilesh Patel 01707 679 340 nilesh.patel@affinitywater.co.uk</p>	<p>Treasurer Joined Affinity Water in March 2017</p>
	<p>Duncan Bates duncan.bates@affinitywater.co.uk</p>	<p>Group Financial Officer Affinity Water CFO from 2012 to 2017 Appointed Group Financial Officer in July 2017</p>

1

INTRODUCTION & COMPANY OVERVIEW

Our Business Operations

Affinity Water at a glance (2016/17)

Revenue	£309 million
RCV	£1,156 million
Net debt	£894 million
Senior RAR (Gearing)	77%
Supply a population of circa 3.7 million	
Operates circa 16,600 km of water mains	



Largest water only company (WOC) by revenue and population served

Source: Affinity Water Limited Annual Report and Financial Statements, Affinity Water Limited Regulatory Annual Performance Report and Affinity Water Limited Investor Report.
Figures as at 31st March 2017 unless otherwise stated.

Supportive Shareholders



36.6%



26.8%



36.6%

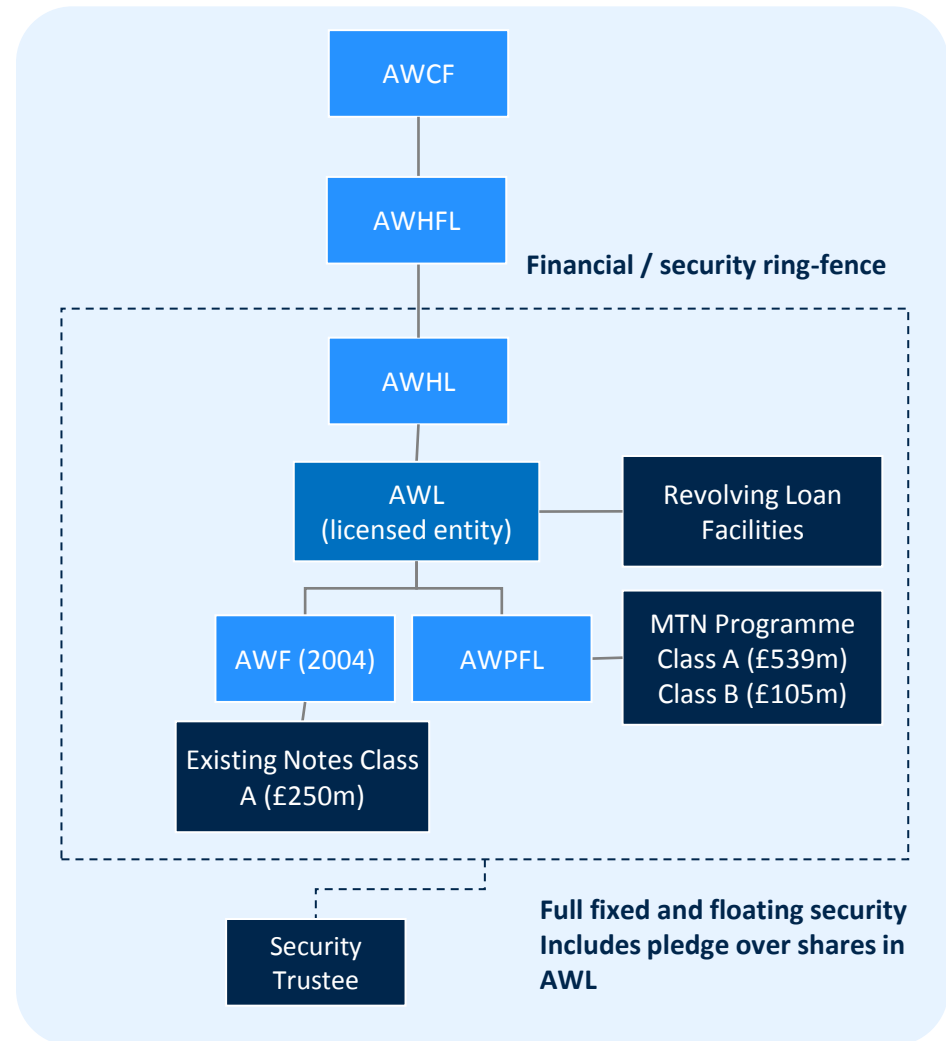
- Consortium of long-term investors
- Track record as strategic investors in a range of core infrastructure

- Sold out of Veolia Group in July 2012 to Infrastructure Investors
- Whole Business Securitisation structure established with Class A & B bonds issued (February 2013)
- “Enhanced” status for AMP6 2015-2020, one of only two companies to achieve this
- Acquired in May 2017 by the Daiwater consortium

Collaborative and financially well resourced shareholder group who support management initiatives

Corporate and Financial Structure

- Class A and B debt structure in line with UK water sector peers
- £789m Class A rated A-/A3 (S&P/Moody's)
- £105m Class B, rated BBB/Baa3 (S&P/Moody's)
- £100m of revolving loan facilities in place
- Debt Service Reserve Liquidity Facility £38m and O&M Reserve Facility £20m provide additional structural protection



Source: Company information

Key Team Member Changes

- Stuart Ledger joined as Chief Financial Officer and was appointed to the Board in October 2017. He is an accountant with significant experience in utilities. Stuart started his career at EDF Energy and went on to hold a number of senior finance roles. He was the financial controller at Wolseley before joining Thames Water in 2008 as Group Financial Controller and then Chief Financial Officer for Retail in 2013
- Dr Philip Nolan has informed the Board that he plans to step down as Chairman of Affinity Water but will remain as Chairman until a successor is found
- Simon Cocks has also announced that he plans to step down as Chief Executive Officer before the end of 2018 but will become a non-executive director thereafter
- Mike Pocock joined the Executive Management Team as Director Asset Strategy in April 2017 having held the position of Head of Control Operations prior to the appointment
- Peter Rowland joined as our Chief Information Officer in April 2017 having held senior executive positions in Technology and Operations for 20 years
- Debbie Ryan joined as our People Director in September 2016, bringing over 20 years' experience in HR

2

OUR AMP6 COMMITMENTS

AMP6 Overview – Totex

Affinity Water Wholesale allowed total expenditure (totex) during AMP6

	2015-16	2016-17	2017-18	2018-19	2019-20	Total 2015-20
Final determination cost threshold						1,091.3
Costs excluded from menu	2.9	2.8	2.8	2.8	2.8	13.9
Menu cost baseline	245.1	247.6	215.2	192.1	177.4	1,077.4
Company's view of menu costs						1,020.1
Implied menu choice						94.7
Allowed expenditure from menu	241.8	244.3	212.3	189.6	175.0	1,063.1
Costs excluded from menu	2.9	2.8	2.8	2.8	2.8	13.9
Total allowed expenditure	244.7	247.1	215.1	192.3	177.8	1,077.0
Less pension deficit repair allowance	0.6	0.6	0.6	0.6	0.6	2.8
Totex for input to PAYG	244.2	246.5	214.5	191.8	177.2	1,074.3

The “baseline” is Ofwat’s assessment of the Business Plan with “upper quartile efficiency challenges” applied

Affinity Water PR14 business plan costs (£57.3 million below Ofwat baseline)

Source: Tables are extracts from Ofwat’s publication “Setting price controls for 2015-20 Final price control determination notice: company-specific appendix – Affinity Water”, December 2014
Wholesale information in 2012/13 year average prices

AMP6 Overview – Pay as You Go and RCV

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Totex (£m)	244.2	246.5	214.5	191.8	177.2	1,074.3
PAYG (%)	69.1%	67.4%	74.7%	81.9%	87.7%	76.2%
Resulting PAYG (£m)	168.8	166.2	160.3	157.2	155.4	807.9

Totex from previous slide

“Fast” money
(paid by today’s bills)

	2015-16	2016-17	2017-18	2018-19	2019-20
Opening RCV	977.5	1,012.3	1,050.4	1,061.3	1,052.2
RCV additions (from totex)	75.4	80.3	54.2	34.6	21.9
Less RCV run-off	40.6	42.2	43.3	43.7	43.4
Closing RCV	1,012.3	1,050.4	1,061.3	1,052.2	1,030.7
Average RCV (year average)	994.9	1,031.4	1,055.9	1,056.8	1,041.5
Return on capital	36.8	38.2	39.1	39.1	38.5

“Slow” money
(added to RCV to be paid for in future bills)

Real RCV growth of £53.2 million during AMP 6

Source: Tables are extracts from Ofwat’s publication “Setting price controls for 2015-20 Final price control determination notice: company-specific appendix – Affinity Water”, December 2014
Wholesale information in 2012/13 year average prices.

AMP6 Overview – Revenues

Affinity Water allowed and expected revenues during AMP6

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
PAYG	169.3	166.8	160.9	157.7	155.9	810.6
Return on capital	36.8	38.2	39.1	39.1	38.5	191.7
RCV run-off	40.6	42.2	43.3	43.7	43.4	213.2
Tax	2.0	1.2	0.2	0.9	2.0	6.5
Income from other sources	-2.6	-2.6	-2.6	-2.6	-2.6	-13.0
Reconciling 2010-15 performance	-2.3	-2.4	-2.5	-2.5	-2.6	-12.3
Ex ante additional menu income	1.8	1.8	1.5	1.4	1.3	7.7
Capital contributions from connection charges and revenue from infrastructure charges	8.4	8.4	8.0	7.8	8.0	40.6
Final allowed revenues	254.0	253.5				

Totex, RCV return and RCV run-off the main components that make up the wholesale allowed revenue

	2015-16	2016-17	2017-18	2018-19	2019-20
Wholesale water – allowed revenues (£m)	254.0	253.5	248.0	245.5	244.0
Retail household allowed revenue (£m)	28.9	28.9	28.8	28.6	29.0
Retail non-household expected revenue (£m)	5.3	5.3	5.2	5.1	5.1
Average household bill – water (£)	165	164	160	157	156

PR14 introduced three separate revenue controls





Average household bills due to fall 5% in real terms

Source: Tables are extracts from Ofwat’s publication “Setting price controls for 2015-20 Final price control determination notice: company-specific appendix – Affinity Water”, December 2014.

Wholesale information in 2012/13 year average prices.

Retail information in 13/14 year average prices. RPI is not applied to retail revenues during AMP 6.

Outcomes, performance commitments and incentives

 <p>Making sure our customers have enough water, while leaving more water in the environment</p>	Reduce leakage by 14%	Financial – reward and penalty
	Reduce average water use by 7%	Financial – penalty only
	Improve the water available for use by 4%	Financial – penalty only
	Abstraction Incentive Mechanism (AIM)	Reputational
	Sustainable abstraction reduction of 42 million litres a day by 2020	Financial – reward and penalty
 <p>Supplying high quality water you can trust</p>	Compliance with water quality standards	Financial – penalty only
	Customer contacts about water quality	Financial – penalty only
 <p>Minimising disruption to you and your community</p>	Unplanned interruptions to supply over 12 hours	Financial – reward and penalty
	Number of burst mains	Financial – penalty only
	Affected customers not notified of planned interruptions	Reputational (with compensation payments)
	Planned work taking longer to complete than notified	Reputational (with compensation payments)
 <p>Providing a value for money service</p>	Service Incentive Mechanism (SIM)	Financial – reward and penalty
	Value for money survey	Reputational

Source: Ofwat “Final price control determination notice: company-specific appendix – Affinity Water” December 2014

AMP6 – Commitments and Key Projects

Reduce average water use by 7%

- Water Saving Programme – Metering (£77m)

Sustainable abstraction reduction of 42 million litres a day by 2020

- Sustainability Abstraction Reductions (£22m)

Compliance with Water Quality Standards

- Lead Pipe Replacement (£25m)
- Pesticide treatment (£22m)

Reduce Leakage by 14% and Number of Burst Mains

- Mains Renewals and Replacement (£63m)



Abstraction ceased at our Bow Bridge pumping station within the rare chalk stream habitat of the River Ver

Source: Company Programme in 12/13 prices

3

2016/17 PERFORMANCE

Operational Performance





Challenges and Issues

- Shadow Market
- Target Operating Model
- Leakage work
- Unplanned interruptions over 12 hours
- Drought

Successes

- We have met our challenging Leakage Target
- Water Saving Programme for AMP6 has installed over 100,000 water meters
- Quarter on quarter improvement in SIM survey results
 - Overall improvement in customer satisfaction levels from 4.31 out 5 in 2015/16 to 4.60 in 2016/17
 - 23% reduction in complaints
- Improved customer experience of AWL's website and digital services
 - Improved self-service functionality
 - Web chat service
- Shortlisted for numerous industry awards

Operational Performance 2016/17

		2016/17 Target	2016/17 Performance	2017/18 Target	
	Making sure our customers have enough water, while leaving more water in the environment	Average annual leakage (MI/d)	178.5	173.0	173.1
		Average annual reduction in water abstracted (MI/d)	12.5	12.5	14.1
	Supplying high quality water you can trust	Mean zonal compliance (%)	99.95	99.96	99.95
	Minimising disruption to you and your community	Number of mains bursts	3,100	3,077	3,100
		Unplanned interruptions to supply over 12 hours (number of properties)	320	1,840	320
	Providing a value for money service	SIM (relative position)	Top 9	13 th /18	Top 9
		Accident Frequency Rate (number of lost time injuries per 100,000 hours worked)	Less than 0.30	0.28	Less than 0.30

Source: Affinity Water Annual Report for the year ended 31 March 2017

Financial Highlights 2016/17

	Year Ended 31 March 2017	Year Ended 31 March 2016
Revenue (£m)	308.7	302.6
Operating Profit (£m)	77.8	82.3
Profit after tax (£m)	30.9	59.7
Regulatory Capital Value (RCV) (£m)	1,156.2	1,080.3
Senior Net Indebtedness	885.2	809.3
Gearing (%)	77	75
Conformed Senior Adjusted Interest Cover (times)	1.7	2.1

Allowed cumulative totex in 2012-13 prices £486 million versus actual cumulative totex of £456 million resulting in £30 million underspend

4

RETAIL NON-HOUSEHOLD BUSINESS

Retail Non-household Business

Update

- The Retail Non-Household business launched in April 2017 as a separate entity, trading as Affinity for Business (Retail) Limited.
- Sale of the non-household business settled before the end of September 2017.
- AWL received the proceeds via external funding (retail business retained by Affinity group but outside securitised ring fence)
- AWL continues to receive the wholesale revenue and household retail revenue (circa 98% of regulated revenue)

Performance

- AWL achieved 2nd position out of 24 wholesalers in the industry for Operational Performance in both the first and second quarters of the live market
- Achieved 97.06% of market service level agreements in the second quarter

5

PR19

PR19 Challenges & Opportunities

Challenges

- Significant WACC reduction expected
- Increase in efficiency challenges and higher risk/reward incentives
- The move to CPI/H from RPI inflation
- Evolution of regulatory framework
- Resilience challenge
- Public legitimacy challenge

Opportunities

- Early certainty, public recognition and financial benefits for companies with exceptional plans

AWL's Approach to PR19

- AWL's Business Plan will represent the priorities of its customers in each of the communities, building on the approach recognised in PR14
- AWL meets with its CCG on a regular basis in preparation for the next Business Plan Commitments
- AWL will be cognisant of the resilience and legitimacy challenge
- AWL is progressing well with developing our plan
- AWL is forward funding some of the requirements of AMP7, which increases certainty in cash flow
- Issuance of CPI-linked bonds will partially mitigate the risk of Ofwat's linking RCV to CPI/H

6

BOND FINANCING OVERVIEW

Rating Agencies

Class A rating: A3
Class B rating: Baa3

MOODY'S

On 23 October 2017, Moody's affirmed the corporate family rating of Affinity Water at Baa1, Class A Notes at A3 and Class B notes at Baa3 with an outlook on all ratings as stable.

Rating Reflects

- “The company's low business risk profile as a monopoly provider of essential water services”
- “Stable cash flows generated under a transparent and well-established regulatory regime”
- “a favourable price determination for the period to March 2020, which should support some regulatory outperformance”

Source: Moody's “Credit Opinion - Affinity Water” dated 23 October 2017

Class A rating: A-
Class B rating: BBB

**STANDARD
& POOR'S**

On 28 February 2017, S&P affirmed Affinity Water with Class A Notes at A- and Class B Notes at BBB with an outlook on all ratings as stable.

- “Our (S&P's) affirmation reflects Affinity Water Ltd.'s (Affinity Water) consistent and predictable revenue and cash flow streams from its monopoly low-risk, regulated water business in south east England and Greater London”
- “The structurally enhanced debt issued by AWPf is rated based on our analysis of Affinity Water's excellent business risk profile and the financing group's leverage”
- “The stable outlook reflects our view that Affinity Water will generate stable cash flows from its regulated activities and maintain adequate operating performance”

Source: S&P “Research Update: Ratings On Debt Issued By Affinity Water Programme Finance Affirmed; Outlook Triggers Revised” dated 28 February 2017

Recent and Future Financing

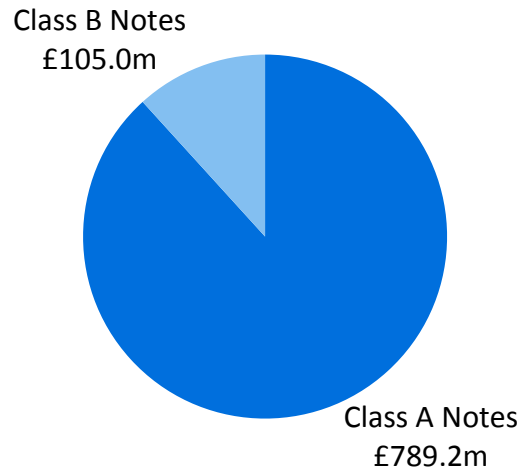
Since the securitisation and refinancing was completed in February 2013, Affinity Water has continued to engage with bondholders on a regular basis.

- | | |
|---------------|---|
| July 2014 | Affinity Water Finance (2004) PLC issues a £50 million tap of the existing 5.875% Class A bonds due 2026, bringing the total issue size to £250 million. |
| June 2015 | Affinity Water undertakes a bondholder roadshow to explain the STID Proposal to introduce Additional Financial Covenants, passed on 16 June 2015. |
| October 2015 | Affinity Water Programme Finance Limited issues a £40 million tap of the existing 1.548% RPI linked Class A bonds due 2045, bringing the total issue size for this class to £190 million. |
| February 2016 | Affinity Water Programme Finance Limited issues a new £10 million 1.024% RPI linked Class B bond due 2033. |
| August 2016 | Affinity Water Programme Finance Limited buys back £65 million of bonds which mature in 2026 and issues £85 million of new bonds to mature in 2042 in a bond exchange exercise |

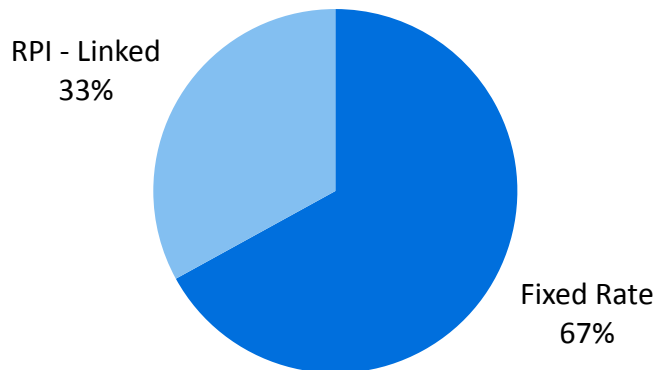
Business plan indicates a minimum of £50 million required for the remainder of AMP6.

Debt Portfolio and Characteristics

Debt Composition



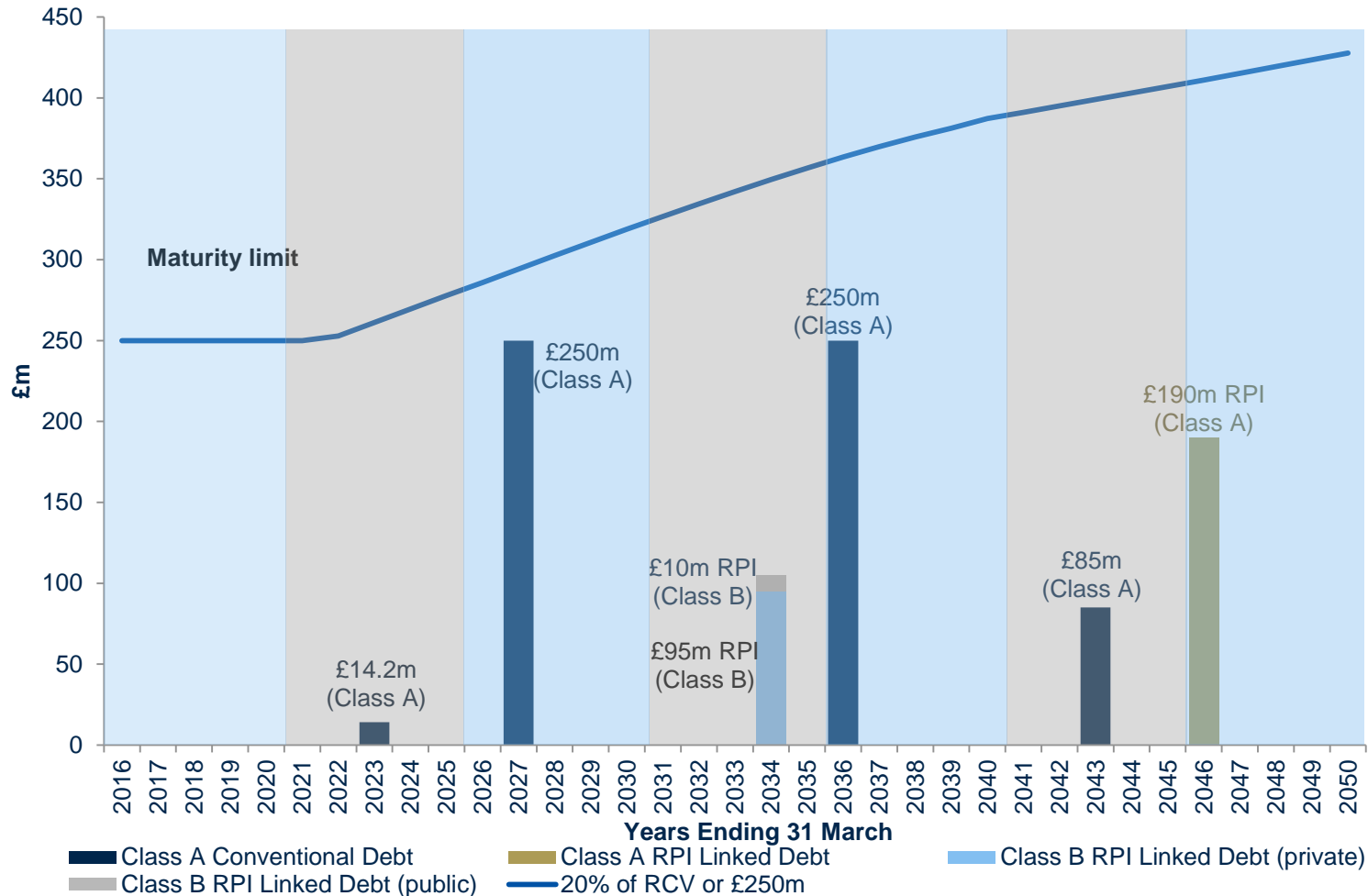
Debt Mix



Characteristics

- Average life of 17 years, indicating a low re-financing risk
- No hedging or swaps in place
- Average cost of debt:
 - 4.0% nominal
 - 1.9% real
- Liquidity Facilities
 - RCF - £100m facilities, £20m drawn
 - DSR - £38m facility
 - O&M - £20m facility

Current Capital Markets Debt Maturity Profile



Source: Company information as at 30 September 2017

Note: Shading indicates AMP periods

7

BOND ISSUE PROPOSAL

Bond Issue Overview

On 3rd November, an intention to raise up to £120 million from the capital markets was announced, utilising the EMTN programme.

The use of the proceeds is to fund capital expenditure for the remainder of the AMP6 and into AMP7.

Our proposals are as below:

- Fixed coupon bond – up to £65 million, maturity of 11-16 years
- CPI-linked bond – up to £65 million, maturity of 22-25 years
- Provision for deferred draw down of the fixed coupon bonds for up to 3 months

Maturities above comply with Common Terms Agreement limits of:

- £250 million (indexed) or 20% maturing over any 24 months
- 40% of RCV maturing over any AMP

8

APPENDIX

Regulatory Financial Performance 2016/17

£m	Retail		Wholesale	Total
	Household	Non-household	Water	
Revenue – price control	27.9	5.0	267.3	300.2
Revenue – non price control	-	-	2.7	2.7
Operating costs	(29.6)	(4.6)	(155.1)	(189.2)
Other operating income	1.6	0.1	(2.4)	(0.8)
Operating profit before recharges, depreciation and amortisation	(0.1)	0.5	112.5	112.9
Recharges between segments , depreciation and amortisation	(2.8)	(0.4)	(53.5)	(56.7)
Net operating profit	(3.0)	0.1	59.0	56.2

£m	Total
Wholesale revenue governed by price control	267.3
Grants & contributions	11.7
Total revenue governed by wholesale price control	278.9
Amount assumed in wholesale determination	277.2
Difference	1.7

Wholesale Revenue within thresholds allowed under PR14 Wholesale Revenue Forecasting Incentive Mechanism

Source: Affinity Water Regulatory Annual Performance Report for the year ended 31 March 2017
Some figures may not add up due to rounding

Regulatory Financial Performance AMP6 - Totex

£m	Cumulative -AMP6
Actual totex	498.1
Third party costs	7.2
Pension deficit recovery payments	5.9
Other 'Rule book' adjustments	0.1
Total costs excluded from the menu	13.2
Adjusted actual totex	484.9
Adjusted actual totex – 12/13 prices	456.1
Allowed totex – 12/13 prices	486.1

£30.0 million totex underspend

In addition to efficiencies against allowed totex, the primary difference between actual and allowed totex related to a slower than anticipated start to some of the companies investment programmes, particularly in year 1. The activity planned for the remainder of the AMP has been re-profiled to facilitate achievement of our regulatory objectives

£m	2017
RCV determined at final determination	1,156.2
RCV element of totex underspend	(10.4)
Adjustment for ODI rewards or penalties	(3.6)
Projected 'shadow' RCV	1,142.1

Source: Affinity Water Regulatory Annual Performance Report for the year ended 31 March 2017
Some figures may not add up due to rounding

Affinity Water Limited Board

Chairman

Dr Philip Nolan

Independent Non-Executive Directors

Chris Bolt

Patrick O'D Bourke

Trevor Didcock

Susan Hooper

Executive Directors

Simon Cocks (CEO)

Stuart Ledger (CFO)

Shareholder Non-Executive Directors

Gareth Craig (HICL)

Jaroslava Korpancova (Allianz)

Angela Roshier (DIF)

New Shareholder Non Executive Directors

Gareth Craig

Appointed in May 2017

Gareth was co-founder and former Head of Infrastructure at HSBC Specialist Investments. He was responsible for establishing HICL Infrastructure Company Limited by way of an initial public offering in 2006 and has more than 20 years' experience of the financing and management of major infrastructure projects. Following retirement from Infrared Capital Partners (the investment adviser to HICL) in 2015, Gareth now acts as consultant and non-executive director for infrastructure and asset intensive businesses. He is Chairman of Green Frog Power, a specialist in providing peaking power to the electricity capacity market.

Jaroslava Korpancova

Appointed in May 2017

Jaroslava is Managing Director at Allianz Capital Partners. Since joining Allianz in 2008, she has led the investments made in a number of infrastructure assets, including the Thames Tideway Tunnel, Porterbrook (the train rolling stock leasing business) and the gas distribution business of National Grid. Before joining Allianz Capital Partners in 2008, Jaroslava worked at AIG Financial Products on a number of debt and equity investments, including the acquisition and management of London City Airport.

Angela Roshier

Appointed in May 2017

Angela is DIF's Partner and Head of Asset Management. She joined in 2010 and oversees the asset management of DIF's PPP and renewable energy investments. Prior to DIF, Angela was a member of 3i Plc and Ctis's Infrastructure teams. Over the past 19 years she has contributed to the origination and asset management of a wide variety of infrastructure assets in the PPP, water, oil tanking and railway sectors both in Europe and emerging markets.

Lock-up and default regime

		Trigger Event – no distributions to be made	31 March 2017	Event of Default – standstill/ enforcement
<p>Financial ratio underperformance results in a distribution block to ensure additional liquidity retained</p> <p>Creditors protected by financial ratios covering both leverage and liquidity</p> <p>Interest ratios calculated on both a forward and backward looking basis to ensure potential cashflow issues are detected early</p>	Class A Adj. ICR	Class A Adjusted ICR < 1.30x	4.1x	Class A Adjusted ICR < 1.0x1
	Class A RAR	Class A RAR > 75%	67%	
	Class A Average Adjusted ICR	Class A Average Adjusted ICR < 1.40x	4.2x	
	Class A ICR	n/a	4.1x	Class A ICR < 1.60x
	Conformed Class A Adjusted ICR	Conformed Class A Adjusted ICR < 1.30x	1.8x	Conformed Class A Adjusted ICR < 1.0x
	Conformed Class A Average Adjusted ICR	Conformed Class A average Adjusted ICR < 1.40x	2.2x	
	Senior Adjusted ICR	Senior Adjusted ICR < 1.10x	3.7x	
	Senior RAR	Senior RAR > 85% ¹	77%	Senior RAR > 95%
	Senior Average Adjusted ICR	Senior Average Adjusted ICR < 1.20x	3.8x	
	Conformed Senior Adjusted ICR	Conformed Senior Adjusted ICR < 1.10x	1.7x	
Conformed Senior Average Adjusted ICR	Conformed Senior Average Adjusted ICR < 1.20x	2.0x		

Key Structural Protections

Structural protections to minimise both financial risk and event risk

Common documentation	<ul style="list-style-type: none"> – All secured creditors subject to Common Terms Agreement and Security Trust and Intercreditor Deed – No independent rights of enforcement 	Trigger events	<ul style="list-style-type: none"> – Early warning without default – Protection against both financial, operational and regulatory risk: <ul style="list-style-type: none"> – RAR and Adjusted ICR outside certain levels – Failure to maintain satisfactory liquidity – Drawdown on liquidity – Rating downgrade Class A to BBB/Baa2 or below by two rating agencies – Consequences of trigger event: <ul style="list-style-type: none"> – Distribution lock up – Increased information requirements – Remedial action plan – Security Trustee appointed review, dialogue with OFWAT
Security package	<ul style="list-style-type: none"> – Full fixed and floating security (to the extent permitted by the Water Industry Act) including share pledge in respect of Affinity Water Limited shares – Given Water Industry Act restrictions, share pledge provides credible exit by selling the whole business – Defensive security through negative pledge and full fixed and floating security – Secured creditors agree to an 18 month automatic standstill which pre-empts special administration and creates secured creditor moratorium for work-out 	Liquidity	<ul style="list-style-type: none"> – Committed liquidity facilities or reserves to cover: <ul style="list-style-type: none"> – 12 months debt service – 10% of next 12 months operating and capital maintenance costs
Ring-fencing of the regulated business	<ul style="list-style-type: none"> – Segregated from any material non regulated businesses – Capable of operating on a standalone basis and not reliant on other parties – Not subject to liabilities of any other party 	Refinancing risk	<ul style="list-style-type: none"> – Limit on concentration of maturities: <ul style="list-style-type: none"> – Maximum of 20% of RCV or £250m in debt maturities to fall in any 2 year period, maximum 40% of RCV in debt maturities in any AMP
Operational covenants	<ul style="list-style-type: none"> – Restrictions on business undertaken – Restrictions on acquisitions and disposals – Operated in a prudent matter in line with good industry practice 	Hedging policy	<ul style="list-style-type: none"> – Prudent treasury management policy with interest rate and currency risk managed with eligible counterparties
Cash management	<ul style="list-style-type: none"> – Control over business cashflow – Waterfall of payments in standstill scenario 	Covenants	<ul style="list-style-type: none"> – Financial covenants – ICR, adjusted ICR,, conformed adjusted ICR and Net Debt/RCV: <ul style="list-style-type: none"> – Limits on additional indebtedness – Events of default – Other general covenants as follows: <ul style="list-style-type: none"> – Information for creditors – Maintenance of rating – Restrictions on type of business operations – Minimum number of Independent Directors
Tax risk	<ul style="list-style-type: none"> – Tax deed of covenant provides tax ring-fencing and protects regulated business from secondary liabilities and tax charges – Potential de-grouping charge if enforcement within 6 years 		

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