
Centre City Tower, 7 Hill Street, Birmingham B5 4UA
21 Bloomsbury Street, London WC1B 3HF
www.ofwat.gov.uk

Tim Monod
Director of Legal and Assurance
Company Secretary
Affinity Water Ltd
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

15 November 2018

OFFICIAL

Dear Tim

Proposed Substitution of Affinity Water Programme Finance Limited with Affinity Water Limited (“Project George”)

1.1 Affinity Water Limited (“AWL”) is the holder of an instrument of appointment granted under sections 11 and 14 of the Water Act 1989 (the “**Appointment**”). Words and expressions defined in the Appointment shall have the same meaning in this letter unless the context otherwise requires.

1.2 In a letter dated 29 October 2018 (the “**Consent Request Letter**”, included as Appendix 1 to this letter), together with the letter from AWL dated 14 November 2018, (the “**Supplementary Letter**” – Appendix 2) AWL sought Ofwat's consent in relation to proposed changes to its capital and ownership structure which AWL consider require Ofwat's consent pursuant to certain provisions of Condition F of its Appointment.

1.3 We have not been provided with copies of the relevant revised financing arrangements and in our consideration of the requests for consent, we have relied on the information and assurances contained in the Consent Request Letter and the Supplementary Letter.

1.4 The purpose of this letter is to record Ofwat's Consent to the specific requests made by AWL and to set out any conditions of those Consents.

¹ A key to the entities involved in the financing structure is included as Appendix 3

1.5 The Consents provided in section 3 of this letter are granted on the basis of the information provided by AWL to Ofwat in the Consent Request Letter and Supplementary Letter and Ofwat's assessment of the specific circumstances of AWL at the time. Accordingly, they should not be taken to be a statement of Ofwat's policy in relation to the availability of consents to other appointees.

2 Background

2.1 We note that AWL's requests are made in the context of proposed changes to its capital and ownership structure¹. The existing capital and ownership structure was implemented in 2013 as part of the refinancing of AWL. It comprises AWL, its holding company Affinity Water Holdings Limited ("AWHL") and its subsidiaries Affinity Water Programme Finance Limited (the "**Current Programme Issuer**") and Affinity Water Finance (2004) PLC (the "**Existing Issuer**").

2.2 The Current Programme Issuer and Existing Issuer have each issued bonds under the existing structure (together, the "Bonds").

2.3 We understand that AWL is proposing to substitute the Current Programme Issuer, an existing Cayman Island incorporated issuer within their securitisation structure with Affinity Water Finance PLC, a new UK incorporated company, as the Substitute Programme Issuer for the Bonds. The Consent Request Letter states that the proposed changes reflect AWL's public commitment to remove the Cayman Islands incorporated subsidiary from the AWL capital structure.

2.4 In 2013, Ofwat provided consent to certain guarantees and cross default obligations being entered into by AWL when the current ring-fenced financing group structure was established. AWL is now seeking consent in respect of certain proposed specific guarantees and cross default obligations as set out in the Consent Request Letter and the Supplementary Letter, arising out of the proposed restructuring.

3 Nature of consents sought

3.1 The guarantees and cross default provisions that are required pursuant to the proposed restructuring are prohibited without the consent of Ofwat under paragraphs 6.11(1) and 6.11(1A) of Condition F of the Appointment.

3.2 The specific arrangements that require AWL to enter into agreements for which consent is now required are as follows:-

3.2.1 Guarantees

(a) AWL will guarantee the obligations of the Substitute Programme Issuer under the Bonds and the obligations of the Substitute Programme Issuer contained in the Finance Documents set out in the Consent Request Letter.

3.2.2 Cross-default obligations

(a) there will be cross-default obligations applicable to AWL on specified events in relation to the Substitute Programme Issuer as set out in the Finance Documents specified in the Consent Request Letter

The consents requested in relation to these arrangements are consistent with the consents provided by Ofwat in 2013 in respect of the Current Programme Issuer and which will now no longer be required when the Substitute Programme Issuer replaces the Current Programme Issuer

4 Ofwat's Consent

4.1 Guarantees and Cross-default obligations

4.1.1 In accordance with, and for the purposes of Condition F, paragraphs 6.11(1) and 6.11(1A) of the Appointment and subject to the condition set out in section 4.1.4 below, Ofwat consents to the guarantees and cross-default obligations set out in section 3 of this letter. As noted above, we have relied on the information provided by AWL in its Consent Request Letter and Supplementary Letter.

4.1.2 For the avoidance of doubt, we note that it is for AWL to satisfy itself that, in implementing this restructuring and the particular matters for which we are providing Consent, it will remain compliant with its obligations under the Appointment, and in particular with respect to the ring-fencing and related requirements in the Appointment. We do not, in providing the above Consent, provide any assurance in that respect.

4.1.3 Further, the Consents provided in section 4.1 of this letter are the only consents granted to AWL in respect of the requests made in the Consent Request Letter and Supplementary Letter. Appending the Consent Request Letter and Supplementary Letter to this letter shall not be interpreted as Ofwat consenting or approving other matters detailed in the Consent Request Letter or Supplementary Letter.

4.1.4 This Consent is subject to the following condition:

there shall be no material changes to the terms of the arrangements between AWL and the Substitute Programme Issuer described in the Consent Request Letter and the Supplementary Letter unless Ofwat's further consent has been obtained for the same;

4.2 General Provisions relating to Ofwat's Consent

4.2.1 The Consent described in section 4.1 shall take effect from the date of this letter.

5 Reasons for Consent

Ofwat considers that the Consent provided in paragraph 4.1 above should be granted because from the information provided, Ofwat is satisfied that the granting of consent is consistent with its statutory duties.

This is on the basis that, as set out in the Consent Request Letter and Supplementary Letter:

- the proposed changes to the capital and ownership structure of AWL do not substantively change the nature of the cross-default and guarantee arrangements to which Ofwat previously granted consent;
- the purposes of these particular cross-default and guarantee arrangements is to facilitate the financing of the Appointed Business and such arrangements are confined within the ring-fenced Financing Group;
- the restructure will not result in an increased threat to the financial resilience of AWL, compared to the position before the restructuring and the relevant transaction will be substantially neutral from a tax and credit rating perspective;
- the costs of the transaction will not be borne by customers.

We trust that you will keep us advised of any material changes to the matters or proposals set out in your letter including, without limitation, those which relate specifically to the consents requested and any material change to the basis on which the Consent has been granted as set out in this section 5.

Yours sincerely



Aileen Armstrong
Senior Director Finance and Governance

Encs:

Appendix 1 – Consent Request Letter

Appendix 2 – Supplementary letter

Appendix 3 – Key to entities involved in the financing structures

Affinity Water Holdings Limited (Registered Number 08350099)

Affinity Water Limited (Registered Number 02546950)

Affinity Water Finance (2004) PLC (Registered Number 05139236)

Affinity Water Programme Finance Limited (Cayman Islands Registered Number 274647)

Affinity Water Finance Plc (a new UK incorporated Issuer: (Registered Number 11674789)