

To: Deutsche Trustee Company Limited as Security Trustee

cc: Moody's Investors Service Ltd;

Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc.

From: South East Water (Finance) Limited (the "Issuer")

South East Water Limited ("SEW")

13 August 2018

#### Dear Sirs

Common Terms Agreement dated 27 July 2004 between, among others, the Issuer, SEW and Deutsche Trustee Company Limited (the "Security Trustee") (the "Common Terms Agreement")

Capitalised terms not defined in this certificate have the meaning given to them in the Master Definitions Agreement.

1 We refer to the Common Terms Agreement. This is a Compliance Certificate.

#### 2 We confirm that:

(a) the ratios are as detailed in the table below in respect of the Calculation Date of 31 March 2018.

Date	31-Mar-16	31-Mar-17	Calculation Date	31-Mar-19	31-Mar-20
RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	80.8%	78.3%	77.7%	77.9%	80.0%
Test Period	1-Apr-15	1-Apr-16	1-Apr-17	1-Apr-18	1-Apr-19
	to	to	to	to	to
	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
ICR	3.56 x	3.76 x	3.52 x	3.40 x	2.97 x
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.40 x	2.97 x
Average Adjusted ICR	3.61 x	3.56 x	3.28 x	3.17 x	2.97 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.47 x	1.21 x
Conformed Average Adjusted ICR	1.93 x	1.78 x	1.48 x	1.33 x	1.21 x

(together the "Ratios").

We confirm that each of the above Ratios has been calculated in respect of the relevant period(s) for which it is required to be calculated under the Common Terms Agreement and has not breached the

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South East Water Ltd Registered in England No. 2679874

Registered Office: Rocfort Road, Snodland, Karll MES 5AH

ISO 9001 Certified ISO 14001 Certified CHSAS 18001 Certified South East Water is an Investor in People Trigger Event Ratio Levels and has not caused paragraph 17 (Ratios) of Part 2 (Events of Default (SEW and the Issuer)) of Schedule 6 to be breached.

We set out below the computation of the following ratios set out in the table in paragraph 2 above for your information:

## (a) ICR

4

Net cash flow from operating activities Exceptional items Recoverable VAT Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	31-Mar-16 £m 120.2 0.0 2.2 0.0	31-Mar-17 £m 127.5 0.0 2.7 0.0	31-Mar-18 £m 123.1 0.0	31-Mar-19 £m	31-Mar-20 £m
Net cash flow from operating activities Exceptional items Recoverable VAT Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	120.2 0.0 2.2	127.5 0.0 2.7	123.1 0.0	137.7	
Net Cash Flow Net cash flow from operating activities Exceptional items Recoverable VAT Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans Index Linked Loans	0.0 2.2	0.0 2.7	0.0		120 5
activities Exceptional items Recoverable VAT Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	0.0 2.2	0.0 2.7	0.0		120 5
Recoverable VAT Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	2,2	2.7		2 mg - 2 mg	128,3
Corporation tax paid Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans			4 4	(9.1)	0.0
Pension funding Non-appointed Net Cash Flow  Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	0.0	0.0	4.1	0.0	0.0
Non-appointed Net Cash Flow  Senior Debt Interest  Finance Leases Debentures  Nominal Debt  Synthetic Index Linked Bonds  Index Linked Bonds  Index Linked Loans (USS)  Index Linked Loans			0.0	0.0	0.0
Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans					
Senior Debt Interest Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	0.0	0.0	(3.4)	(6.1)	(6.3)
Finance Leases Debentures Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	122.4	130.2	123.7	122.5	123.1
Debentures  Nominal Debt  Synthetic Index Linked Bonds  Index Linked Bonds  Index Linked Loans (USS)  Index Linked Loans					
Nominal Debt Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	0.0	0.1	0.0	0.0	0.0
Synthetic Index Linked Bonds Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	0.0	0.0	0.0	0.0	0.0
Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	9.3	9.3	9.3	9.3	19.
Index Linked Bonds Index Linked Loans (USS) Index Linked Loans	8.6	8.7	8.8	9.3	2.5
Index Linked Loans	3.9	4.0	4.1	4.3	4.
	2.6	2.6	2.7	2.8	2.
	8.6	8.8	9.1	9.4	9.
Drawdown Facilities	8.0	0.5	0.5	0.2	1.
Ambac fee	0.7	0.8	0.8	0.7	1.
Senior Debt Interest Payable	34.6	34.7	35.2	36.1	41.
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.0)	(0.0
Senior Debt Interest	34.4	34.6	35.2	36.0	41.
ICR	3.56 x	3.76 x	3.52 x	3.40 x	2.97
(b) Adjusted ICR	0.00 X	0.70 X	0102 X	9.10	
<u> </u>	1-Apr-1		•		
	31-Ma	55.		31-Mar-	31-Ma
	£n				
Net Cash Flow					

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website www.southeastwater.co.uk South East Water Ltd Registered in England No. 2679874

Registered Office: Rocfort Road, Snodland, Kent ME5 544

ISO 9001 Certified ISO 14001 Certified CHSAS 18001 Certified South East Water is an Investor in People

CCD & IRC							
CCD		(	0.0	0.0	0.0	0.0	0.0
IRC			0.0	0.0		0.0	0.0
Total regulatory de	epreciation		0.0	0.0	0.0	0.0	0.0
Net Cash Flow afted depreciation	er regulatory	122	2.4	130.2	123.7	122.5	123.1
Senior Debt Intere	st	34	4.4	34.6	35.2	36.0	41.5
Adjusted ICR		3.56	ĵх	3.76 x	3.52 x	3.40 x	2.97 >
(c) Average	Adjusted ICR						
		1-Apr-		1-Apr-16		1-Apr-18	1-Apr-19
		31-Ma	to ar-	to 31-Mar-		to 31-Mar-	to 31-Mar-
			16	17		19	20
		£	m.	£m	£m	£m	£m
Net Cash Flow		122	2.4	130.2	123.7	122.5	123.1
CCD & IRC							
CCD		C	0.0	0.0	0.0	0.0	0.0
IRC		0.0		0.0	0.0	0.0	0.0
Total regulatory de	epreciation	C	0.0	0.0	0.0	0.0	0.0
Net Cash Flow afted depreciation	er regulatory	122	2.4	130.2	123.7	122.5	123.1
Senior Debt Intere	st	34	4.4	34.6	35.2	36.0	41.5
Adjusted ICR		3.56	3 x	3.76 x	3,52 x	3.40 x	2.97 >
Average Adjusted	ICR	3.61	1 x	3.56 x	3.28 x	3.17 x	2.97
(d) RAR							
		31-Mar-16	31	-Mar-17	Calculation Date	31-Mar-19	31-Mar-20
		£m		£m	£m	£m	£m
Senior Debt (Clos	ing Balances)	100				1140	
Finance Leases		0.0		0.0	0.0	0.0	0.0
Debentures		1.0		1.0	1.0	1.0	1.0
ort Road	TELEPHONE 0333 000 1122			SENCY LINE 30 000 365		South East Water L Registered in Engla	nd No. 2679874
and  ME6 5AH  water@southeas		WEBSITE		TE		Registered Office: R Kent ME6 5AH	

Nominal Debt	166.0	166.0	166.0	166.0	166.0
Synthetic Index Linked Bonds	282.9	287.5	296.3	306.3	0.0
Index Linked Bonds	156.1	160.4	166.0	171.3	176.
Fixed Rate Bonds	0.0	0.0	0.0	0.0	306.
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	113.5	117.4	121.
Index Linked Loans	246.3	250.9	259.9	268.6	276.
Capex Drawdown Facility	0.0	0.0	20.0	53.0	67.
Total Senior Debt Closing Balance	959.5	975.7	1022.8	1083.5	1115.
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(12.5)	(3.7
Senior Net Indebtedness	942.5	964.3	1016.2	1071.0	1111.
Regulatory Capital Value	1166.6	1231.1	1307.5	1374.5	1389.
RAR	80.8%	78.3%	77.7%	77.9%	80.09
(e) Conformed Adjusted ICR	1-Apr-15	1-Apr-16	1-Apr-17	1-Apr-18	-
(e) Conformed Adjusted ICR	1-Apr-15 to	1-Apr-16 to	1-Apr-17	1-Apr-18	1-Apr-1 t
(e) Conformed Adjusted ICR					t 31-Mai
(e) Conformed Adjusted ICR	to 31-Mar-	to 31-Mar-	to 31-Mar-	to 31-Mar-	t 31-Mai 2
	to 31-Mar- 16	to 31-Mar- 17	to 31-Mar- 18	to 31-Mar- 19	t 31-Ma 2 £r
Net Cash Flow	to 31-Mar- 16 £m	to 31-Mar- 17 £m	to 31-Mar- 18 £m	to 31-Mar- 19 £m	t 31-Mar 2 £r 123.
Net Cash Flow RCV Depreciation	to 31-Mar- 16 £m	to 31-Mar- 17 £m	to 31-Mar- 18 £m	to 31-Mar- 19 £m	123.
Net Cash Flow  RCV Depreciation  Capitalised IRE	to 31-Mar- 16 £m 122.4	to 31-Mar- 17 £m 130.2	to 31-Mar- 18 £m 123.7	to 31-Mar- 19 £m 122.5	123.
Net Cash Flow  RCV Depreciation  Capitalised IRE	to 31-Mar- 16 £m 122.4 38.3 18.9	to 31-Mar- 17 £m 130.2	to 31-Mar- 18 £m 123.7	to 31-Mar- 19 £m 122.5	123. 52. 20.
Net Cash Flow  RCV Depreciation  Capitalised IRE  Total regulatory depreciation  Net Cash Flow after regulatory	to 31-Mar- 16 £m 122.4 38.3 18.9 57.2	to 31-Mar- 17 £m 130.2 43.1 14.7 57.8	to 31-Mar- 18 £m 123.7 46.8 13.4 60.2	to 31-Mar- 19 £m 122.5 49.4 20.2 69.6	-

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# (f) Conformed Average Adjusted ICR

	1-Apr-15	1-Apr-16	1-Apr-17	1-Apr-18	1-Apr-19
	to	to	to	to	to
	31-Mar-	31-Mar-	31-Mar-	31-Mar-	31-Mar-
	16	17	18	19	20
	£m	£m	£m	£m	£m
Net Cash Flow	122.4	130.2	123.7	122.5	123.1
CCD & IRC					
CCD	38.3	43.1	46.8	49.4	52,3
IRC	18.9	14.7	13.4	20.2	20.4
Total regulatory depreciation	57.2	57.8	60.2	<b>69</b> .6	72.7
Net Cash Flow after regulatory depreciation	65.2	72.4	63.5	52.9	50.4
Senior Debt Interest	34.4	34.6	35.2	36.0	41.5
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.47 x	1.21 x
Conformed Average Adjusted ICR	1.93 x	1.78 x	1.48 x	1.33 x	1.21 x

### 5 We also confirm that:

- (g) no Default or Potential Trigger Event is outstanding; and
- (h) that SEW's insurances are being maintained in accordance with:
  - (i) the Common Terms Agreement.

Yours faithfully,

Director

Director

Director

Director

For and on behalf of

**SOUTH EAST WATER LIMITED** 

For and on behalf of

SOUTH EAST WATER (FINANCE) LIMITED

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