

## COMPLIANCE CERTIFICATE

### 1. Historic

We confirm that in respect of the Calculation Date on 30 September 2016, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) of the Common Terms Agreement that the ratios are as detailed in the table below in respect of the Calculation date on 30 September 2016.

Date	Calculation Date	31-Mar-17	31-Mar-18	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%	79.4%	78.0%	77.5%	80.8%
Test Period	1-Apr-15 to 31-Mar-16	1-Apr-16 to 31-Mar-17	1-Apr-17 to 31-Mar-18	1-Apr-18 to 31-Mar-19	1-Apr-19 to 31-Mar-20
ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
Average Adjusted ICR	3.40 x	3.33 x	3.14 x	3.10 x	2.89 x
Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
Conformed Average Adjusted ICR	1.65 x	1.50 x	1.37 x	1.36 x	1.29 x

### 2. Forward Looking

We confirm that each of the above Ratios has been calculated in respect of each of the relevant period(s) for which it is required under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of part 2 (Event of Default (SEW)) of Schedule 6 of the Common Terms Agreement to be breached.

3. We set out below the computation of the following ratios set out in the table in Paragraph 1 above for your information:

a) RAR

	Calculation Date £m	31-Mar-17 £m	31-Mar-18 £m	31-Mar-19 £m	31-Mar-20 £m
<b>Senior Debt (Closing Balances)</b>					
Finance Leases	0.0	0.0	0.0	0.0	0.0
Debentures	1.0	1.0	1.0	1.0	1.0
Nominal Debt	166.0	166.0	166.0	166.0	166.0
Synthetic Index Linked Bonds	282.9	287.6	292.3	300.0	0.0
Index Linked Bonds	156.1	160.0	163.1	167.7	172.4
Fixed Rate Bonds	0.0	0.0	0.0	0.0	150.0
Index Linked Bonds	0.0	0.0	0.0	0.0	154.2
Index Linked Loans (USS)	107.2	109.7	112.0	115.0	118.2
Index Linked Loans	246.3	250.9	254.7	261.8	269.1
Capex Drawdown Facility	0.0	10.0	14.4	33.3	66.4
Total Senior Debt Closing Balance	959.5	985.2	1003.5	1044.7	1097.3
Less: Cash Balance	(17.0)	(13.7)	(0.6)	(0.7)	(0.8)
Senior Net Indebtedness	942.5	971.4	1002.9	1044.0	1096.5
Regulatory Capital Value	1166.6	1222.9	1285.8	1347.1	1357.1
<b>RAR</b>	80.8%	79.4%	78.0%	77.5%	80.8%

b) ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
<b>Net Cash Flow</b>					
Net cash flow from operating activities	120.2	117.6	116.3	123.1	129.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.0	2.1	2.1	2.1
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Non-appointed	0.0	(2.1)	(3.2)	(3.4)	(3.6)
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
<b>Senior Debt Interest</b>					
Finance Leases	0.0	0.1	0.0	0.0	0.0

Debentures	0.0	0.0	0.0	0.0	0.0
Nominal Debt	9.3	9.3	9.3	9.3	17.5
Synthetic Index Linked Bonds	8.6	8.7	8.8	9.0	4.0
Index Linked Bonds	3.9	4.0	4.1	4.2	8.1
Index Linked Loans (USS)	2.6	2.6	2.7	2.7	2.8
Index Linked Loans	8.6	8.8	8.9	9.1	9.4
Drawdown Facilities	0.8	0.5	0.6	0.9	1.6
Ambac fee	0.7	0.8	1.3	1.3	0.7
Senior Debt Interest Payable	34.6	34.7	35.5	36.4	44.1
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1

ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
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**c) Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
<b>CCD &amp; IRC</b>					
CCD	0.0	0.0	0.0	0.0	0.0
IRC	0.0	0.0	0.0	0.0	0.0
Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
Net Cash Flow after regulatory depreciation	122.4	117.5	115.2	121.9	127.5
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x

**d) Average Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
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Net Cash Flow	122.4	117.5	115.2	121.9	127.5
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**CCD & IRC**

CCD	0.0	0.0	0.0	0.0	0.0
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IRC	0.0	0.0	0.0	0.0	0.0
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Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
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Net Cash Flow after regulatory depreciation	122.4	117.5	115.2	121.9	127.5
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Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
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Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
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Average Adjusted ICR	3.40 x	3.33 x	3.14 x	3.10 x	2.89 x
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**e) Conformed Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
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Net Cash Flow	122.4	117.5	115.2	121.9	127.5
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RCV Depreciation	38.3	43.5	46.1	48.4	50.9
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Capitalised IRE	18.9	16.2	20.0	20.3	19.9
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Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8
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Net Cash Flow after regulatory depreciation	65.2	57.8	49.2	53.2	56.7
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Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
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Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
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**f) Conformed Average Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
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Net Cash Flow	122.4	117.5	115.2	121.9	127.5
<b>CCD &amp; IRC</b>					
CCD	38.3	43.5	46.1	48.4	50.9
IRC	18.9	16.2	20.0	20.3	19.9
Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8
Net Cash Flow after regulatory depreciation	65.2	57.8	49.2	53.2	56.7
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
Conformed Average Adjusted ICR	1.65 x	1.50 x	1.37 x	1.36 x	1.29 x

4. We certify that for the period to 31 March 2017 the Annual Finance Charge will be £34.6m.

5. Annual Finance Charge calculation:

	to 31 March 2017 £m
<b>Senior Debt Interest</b>	
Finance Leases	0.1
Debentures	0.0
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	8.7
Index Linked Bonds (£130m)	4.0
Index linked loans (USS)	2.6
Index Linked Loans	8.8
Working Capital Facility	0.0
Capex Drawdown Facility	0.0
Ambac fee	0.8
Commitment fee	0.5
	<hr/> 34.7
Less: interest earned	<hr/> (0.1)
12 Months Total	<hr/> 34.6

6. Total payments into the DSR Accounts for the period to 30 September 2016 were £16.9m.
7. We also confirm that:
- (a) no Default of Potential Trigger Event is outstanding; and
  - (b) that SEW's insurance's are being maintained in accordance with:
    - (i) the Common Terms Agreement; and
    - (ii) the provisions of the Finance Leases

Yours faithfully,

Director

Director

Director

For and on behalf of  
**SOUTH EAST WATER LIMITED**

Director

For and on behalf of  
**SOUTH EAST WATER (FINANCE)  
LIMITED**

## Appendix

### Financial Statements

#### South East Water (Holdings) Limited

#### Consolidated profit & loss account for the six months ended 30 September 2016

	Companies £000	Eliminations £000	Group £000
<b>Turnover</b>	110,990	-	110,990
Operating costs	(72,986)	-	(72,986)
Profit on disposal of fixed assets	96	-	96
Other operating income	3,939	-	3,939
<b>Operating profit</b>	42,039	-	42,039
Income from investments	8,000	(8,000)	-
Interest receivable - group	2,462	(2,462)	-
Interest receivable - other	56	-	56
Interest payable - group	(5,173)	2,462	(2,711)
Interest payable - other	(22,882)	-	(22,882)
Return on pension scheme assets	168	-	168
<b>Profit on ordinary activities before taxation</b>	24,670	(8,000)	16,670
Tax (charge)/credit on profit on ordinary activities	4,684	-	4,684
<b>Profit on ordinary activities after taxation</b>	29,354	(8,000)	21,354
<b>Dividends</b>	(11,850)	8,000	(3,850)
<b>Profit in p&amp;l account</b>	17,504	-	17,504
STRGL - pension	(9,133)	-	(9,133)
<b>Profit for period</b>	8,371	-	8,371

**South East Water (Holdings) Limited**  
**Consolidated balance sheet at 30 September 2016**

	Companies £000	Eliminations £000	Group £000
Tangible assets	1,440,997	-	1,440,997
Investments	361,421	(361,421)	-
Net Current (liabilities)/assets	(8,365)	-	(8,365)
Creditors: amounts falling due after more than one year	(212,569)		(212,569)
Current asset investments	15,000	-	15,000
Cash and cash equivalents:			
Current accounts	1,302	-	1,302
DSR	113	-	113
O&M	-	-	-
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(912,607)	912,607	-
Intra group loan debtors	912,607	(912,607)	-
Other loans	(82,152)	-	(82,152)
Finance leases	-		-
Debentures	(991)	-	(991)
Bonds	(496,000)	-	(496,000)
Indexation	(118,888)	-	(118,888)
Artesian loans	(269,000)	-	(269,000)
Indexation	(85,211)	-	(85,211)
Unamortised costs	6,428	-	6,428
Net pension liability	(1,205)	-	(1,205)
<b>Net assets</b>	<b>550,880</b>	<b>(361,421)</b>	<b>189,459</b>
<b>Capital and reserves</b>			
Called up share capital	140,720	(49,312)	91,408
Revaluation reserve	264,063	-	264,063
Profit and loss account b/fwd	135,259	(312,109)	(176,850)
Loss for period	10,838	-	10,838
<b>Capital employed</b>	<b>550,880</b>	<b>(361,421)</b>	<b>189,459</b>



**South East Water (Holdings) Limited**  
**Consolidated movement in the profit and loss reserve for the period ended 30 September 2016**

	Companies £000	Eliminations £000	Group £000
At 1 April 2016	135,259	(312,109)	(176,850)
Profit for the year	29,354	(8,000)	21,354
Pension scheme in STRGL	(9,133)	-	(9,133)
Dividends	(11,850)	8,000	(3,850)
Movement through reserves	2,467	-	2,467
	10,838	-	10,838
At 30 September 2016	146,097	(312,109)	(166,012)