

COMPLIANCE CERTIFICATE

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 30 September 2019:

| Date | 31-Mar-16 | 31-Mar-17 | 31-Mar-18 | Calculation Date | 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% | 73.2% | 74.0% |
| 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 | 3.76 x | 3.62 x | 3.50 x | 2.99 x |
| Adjusted ICR | 3.56 x | 3.76 x | 3.62 x | 3.50 x | 2.99 x |
| Average Adjusted ICR | 3.65 x | 3.62 x | 3.35 x | 3.35 x | 3.35 x |
| Conformed Adjusted ICR | 1.90 x | 2.09 x | 1.90 x | 1.61 x | 1.34 x |
| Conformed Average Adjusted ICR | 1.96 x | 1.86 x | 1.60 x | 1.60 x | 1.60 x |

(together the "**Ratios**")

3. 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 to be breached.

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

a) 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 | | | | | |
| Net cash flow from operating activities | 120.2 | 127.5 | 123.2 | 125.0 | 127.3 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Recoverable VAT | 2.2 | 2.7 | 4.0 | 2.9 | 1.1 |
| Corporation tax paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension funding | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-appointed | 0.0 | 0.0 | 0.0 | 0.0 | (5.2) |
| Net Cash Flow | 122.4 | 130.2 | 127.2 | 127.9 | 123.2 |
| Senior Debt Interest | | | | | |
| 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 | 13.4 |
| Synthetic Index Linked Bonds | 8.6 | 8.7 | 8.8 | 9.3 | 9.4 |
| Index Linked Bonds | 3.9 | 4.0 | 4.1 | 4.3 | 4.4 |
| Index Linked Loans (USS) | 2.6 | 2.6 | 2.7 | 2.8 | 2.8 |
| Index Linked Loans | 8.6 | 8.8 | 9.1 | 9.4 | 9.6 |
| Drawdown Facilities | 0.8 | 0.5 | 0.5 | 0.9 | 1.3 |
| Ambac fee | 0.7 | 0.8 | 0.8 | 0.7 | 0.3 |
| Senior Debt Interest Payable | 34.6 | 34.7 | 35.2 | 36.7 | 41.3 |
| Interest Receivable | (0.2) | (0.1) | (0.1) | (0.1) | (0.1) |
| Senior Debt Interest | 34.4 | 34.6 | 35.2 | 36.6 | 41.2 |
| ICR | 3.56 x | 3.76 x | 3.62 x | 3.50 x | 2.99 x |

b) 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 | 130.2 | 127.2 | 127.9 | 123.2 |

CCD & IRC

| | | | | | |
|-------------------------------|-----|-----|-----|-----|-----|
| 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 | 130.2 | 127.2 | 127.9 | 123.2 |
|---|-------|-------|-------|-------|-------|

| | | | | | |
|----------------------|------|------|------|------|------|
| Senior Debt Interest | 34.4 | 34.6 | 35.2 | 36.6 | 41.2 |
|----------------------|------|------|------|------|------|

| | | | | | |
|--------------|--------|--------|--------|--------|--------|
| Adjusted ICR | 3.56 x | 3.76 x | 3.62 x | 3.50 x | 2.99 x |
|--------------|--------|--------|--------|--------|--------|

c) 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 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|

| | | | | | |
|---------------|-------|-------|-------|-------|-------|
| Net Cash Flow | 122.4 | 130.2 | 127.2 | 127.9 | 123.2 |
|---------------|-------|-------|-------|-------|-------|

CCD & IRC

| | | | | | |
|-------------------------------|-----|-----|-----|-----|-----|
| 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 | 130.2 | 127.2 | 127.9 | 123.2 |
|---|-------|-------|-------|-------|-------|

| | | | | | |
|----------------------|------|------|------|------|------|
| Senior Debt Interest | 34.4 | 34.6 | 35.2 | 36.6 | 41.2 |
|----------------------|------|------|------|------|------|

| | | | | | |
|--------------|--------|--------|--------|--------|--------|
| Adjusted ICR | 3.56 x | 3.76 x | 3.62 x | 3.50 x | 2.99 x |
|--------------|--------|--------|--------|--------|--------|

| | | | | | |
|----------------------|--------|--------|--------|--------|--------|
| Average Adjusted ICR | 3.65 x | 3.62 x | 3.35 x | 3.35 x | 3.35 x |
|----------------------|--------|--------|--------|--------|--------|

d) RAR

| | 31-Mar-16 £m | 31-Mar-17 £m | 31-Mar-18 £m | Calculation Date £m | 31-Mar-20 £m |
|---------------------------------------|-----------------|-----------------|-----------------|---------------------------|-----------------|
| Senior Debt (Closing Balances) | | | | | |
| 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 | 287.5 | 296.3 | 0.0 | 0.0 |
| Index Linked Bonds | 156.1 | 160.4 | 166.0 | 173.1 | 175.6 |
| Fixed Rate Bonds | 0.0 | 0.0 | 0.0 | 175.0 | 175.0 |
| Variable rate loans | 0.0 | 0.0 | 0.0 | 120.0 | 120.0 |
| Index Linked Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Index Linked Loans (USS) | 107.2 | 109.9 | 113.5 | 117.6 | 120.1 |
| Index Linked Loans | 246.3 | 250.9 | 259.9 | 269.6 | 275.8 |
| Capex Drawdown Facility | 0.0 | 0.0 | 20.0 | 15.0 | 25.0 |
| Total Senior Debt Closing Balance | 959.5 | 975.7 | 1022.8 | 1037.2 | 1058.4 |
| Less: Cash Balance | (17.0) | (11.4) | (6.5) | (12.3) | (7.1) |
| Senior Net Indebtedness | 942.5 | 964.3 | 1016.2 | 1024.9 | 1051.4 |
| Regulatory Capital Value | 1166.6 | 1231.1 | 1307.5 | 1399.4 | 1420.1 |
| RAR | 80.8% | 78.3% | 77.7% | 73.2% | 74.0% |

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 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Net Cash Flow | 122.4 | 130.2 | 127.2 | 127.9 | 123.2 |
| RCV Depreciation | 38.3 | 43.1 | 46.8 | 49.1 | 50.2 |
| Capitalised IRE | 18.9 | 14.7 | 13.4 | 19.9 | 17.9 |
| Total regulatory depreciation | 57.2 | 57.8 | 60.2 | 69.0 | 68.1 |
| Net Cash Flow after regulatory depreciation | 65.2 | 72.4 | 67.0 | 58.8 | 55.1 |
| Senior Debt Interest | 34.4 | 34.6 | 35.2 | 36.6 | 41.2 |
| Conformed Adjusted ICR | 1.90 x | 2.09 x | 1.90 x | 1.61 x | 1.34 x |

f) Conformed Average Adjusted ICR

| | 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 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | | | | |

| | £m | £m | £m | £m | £m |
|---|--------|--------|--------|--------|--------|
| Net Cash Flow | 122.4 | 130.2 | 127.2 | 127.9 | 123.2 |
| CCD & IRC | | | | | |
| CCD | 38.3 | 43.1 | 46.8 | 49.1 | 50.2 |
| IRC | 18.9 | 14.7 | 13.4 | 19.9 | 17.9 |
| Total regulatory depreciation | 57.2 | 57.8 | 60.2 | 69.0 | 68.1 |
| Net Cash Flow after regulatory depreciation | 65.2 | 72.4 | 67.0 | 58.8 | 55.1 |
| Senior Debt Interest | 34.4 | 34.6 | 35.2 | 36.6 | 41.2 |
| Conformed Adjusted ICR | 1.90 x | 2.09 x | 1.90 x | 1.61 x | 1.34 x |
| Conformed Average Adjusted ICR | 1.96 x | 1.86 x | 1.60 x | 1.60 x | 1.60 x |

5. We also confirm that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that SEW's insurances are being maintained in accordance with:
 - (i) the Common Terms Agreement; and
 - (ii) the provisions of the Finance Leases.

Yours faithfully,



Director



Director

For and on behalf of
SOUTH EAST WATER LIMITED



Director



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 2019

| | Companies £'m | Eliminations £'m | Group £'m |
|---|------------------|---------------------|--------------|
| Turnover | 122.8 | - | 122.8 |
| Operating costs | (86.2) | - | (86.2) |
| Profit on disposal of fixed assets | 0.1 | - | 0.1 |
| Other operating income | 6.1 | - | 6.1 |
| Operating profit | 42.7 | - | 42.7 |
| Income from investments | 5.5 | (5.5) | - |
| Interest receivable - group | 2.6 | (2.6) | - |
| Interest receivable - other | 0.1 | - | 0.1 |
| Interest payable - group | (5.4) | 2.6 | (2.8) |
| Interest payable - other | (25.9) | - | (25.9) |
| Return on pension scheme assets | 0.3 | - | 0.3 |
| Profit on sale of intangible assets | - | - | - |
| Profit on ordinary activities before taxation | 20.0 | (5.5) | 14.5 |
| Tax (charge)/credit on profit on ordinary activities | (0.8) | - | (0.8) |
| Profit on ordinary activities after taxation | 19.2 | (5.5) | 13.7 |
| Dividends | (5.7) | 5.5 | (0.2) |
| | 13.5 | - | 13.5 |
| STRGL - pension | 9.7 | - | 9.7 |
| Profit/(loss) for period taken to p&l reserves | 23.2 | - | 23.2 |

South East Water (Holdings) Limited
Consolidated balance sheet at 30 September 2019

| | Companies £'m | Eliminations £'m | Group £'m |
|---|------------------|---------------------|--------------|
| Tangible assets | 1,591.3 | - | 1,591.3 |
| Investments | 361.4 | (361.4) | - |
| Net Current (liabilities)/assets | (17.4) | - | (17.4) |
| Creditors: amounts falling due after more than one year | (158.3) | - | (158.3) |
| Current asset investments | - | - | - |
| Cash and cash equivalents: | | | |
| Current accounts | 6.1 | - | 6.1 |
| DSR | 6.8 | - | 6.8 |
| O&M | - | - | - |
| First loss account | - | - | - |
| Financing liabilities | | | |
| Intra group loan creditors | (592.7) | 592.7 | - |
| Intra group loan debtors | 592.7 | (592.7) | - |
| Other HDF group loans | (82.2) | - | (82.2) |
| Debentures | (1.0) | - | (1.0) |
| Bonds | (296.0) | - | (296.0) |
| Indexation | (43.1) | - | (43.1) |
| Artesian loans | (269.0) | - | (269.0) |
| Indexation | (118.1) | - | (118.1) |
| Other external loans | (295.0) | - | (295.0) |
| Finance leases (IFRS 16) | (3.0) | - | (3.0) |
| Unamortised costs | 7.5 | - | 7.5 |
| Bank loans | (15.0) | - | (15.0) |
| Net pension liability | 37.1 | - | 37.1 |
| Net assets | 712.0 | (361.4) | 350.6 |
| Capital and reserves | | | |
| Called up share capital | 194.7 | (49.3) | 145.4 |
| Revaluation reserve | 248.7 | - | 248.7 |
| Profit and loss account b/fwd. | 242.9 | (312.1) | (69.3) |
| Profit for period | 25.7 | - | 25.7 |
| Capital employed | 712.0 | (361.4) | 350.6 |

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the period ended 30 September 2019

| | Companies £'m | Eliminations £'m | Group £'m |
|---------------------------|------------------|---------------------|--------------|
| At 1 April 2019 | 242.9 | - | 312.1 |
| | | | 69.3 |
| Profit for the year | 19.2 | - | 5.5 |
| Pension scheme in STRGL | 9.7 | - | 9.7 |
| Dividends | - | 5.7 | 5.5 |
| Movement through reserves | 2.5 | - | 2.5 |
| | 25.7 | 0.0 | 25.7 |
| At 30 September 2019 | 268.6 | - | 312.1 |
| | | | 43.5 |