

COMPLIANCE CERTIFICATE

1. Historic

We confirm that in respect of the Calculation Date on 30 September 2018, 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 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%	78.2%	75.6%
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	3.52 x	3.43 x	3.20 x
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x
Average Adjusted ICR	3.61 x	3.57 x	3.37 x	3.37 x	3.37 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 x
Conformed Average Adjusted ICR	1.93 x	1.81 x	1.56 x	1.56 x	1.56 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

	31-Mar-16	31-Mar-17	Calculation Date	31-Mar-19	31-Mar-20
	£m	£m	£m	£m	£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	306.3	0.0
Index Linked Bonds	156.1	160.4	166.0	170.7	176.4
Fixed Rate Loans	0.0	0.0	0.0	175.0	175.0
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	113.5	116.7	121.2
Index Linked Loans	246.3	250.9	259.9	268.3	276.9
Floating rate loans	0.0	0.0	20.0	30.0	138.0
Total Senior Debt Closing Balance	959.5	975.7	1022.8	1234.0	1054.5
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(165.4)	(9.1)
Senior Net Indebtedness	942.5	964.3	1016.2	1068.6	1045.4
Regulatory Capital Value	1166.6	1231.1	1307.5	1366.6	1383.2
RAR	80.8%	78.3%	77.7%	78.2%	75.6%

b) 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					
Net cash flow from operating activities	120.2	127.5	123.1	127.9	132.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.7	4.1	1.8	0.0
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Pension funding					
Non-appointed	0.0	0.0	(3.4)	(6.0)	(6.6)
Net Cash Flow	122.4	130.2	123.7	123.6	125.7

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	16.7
Synthetic Index Linked Bonds	8.6	8.7	8.8	9.3	4.5
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	0.3	0.3
Ambac fee	0.7	0.8	0.8	0.8	1.0
Senior Debt Interest Payable	34.6	34.7	35.2	36.1	39.3
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3

ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 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	130.2	123.7	123.6	125.7
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	123.7	123.6	125.7
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 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	130.2	123.7	123.6	125.7
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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	130.2	123.7	123.6	125.7
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Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
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Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x
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Average Adjusted ICR	3.61 x	3.57 x	3.37 x	3.37 x	3.37 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	130.2	123.7	123.6	125.7
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RCV Depreciation	38.3	43.1	46.8	47.9	52.3
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Capitalised IRE	18.9	14.7	13.4	20.0	20.4
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Total regulatory depreciation	57.2	57.8	60.2	68.0	72.7
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Net Cash Flow after regulatory depreciation	65.2	72.4	63.5	55.6	53.0
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Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
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Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 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	130.2	123.7	123.6	125.7
CCD & IRC					
CCD	38.3	43.1	46.8	47.9	52.3
IRC	18.9	14.7	13.4	20.0	20.4
Total regulatory depreciation	57.2	57.8	60.2	68.0	72.7
Net Cash Flow after regulatory depreciation	65.2	72.4	63.5	55.6	53.0
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 x
Conformed Average Adjusted ICR	1.93 x	1.81 x	1.56 x	1.56 x	1.56 x

4. We certify that for the period to 31 March 2018 the Annual Finance Charge will be £36.1m.

5. Annual Finance Charge calculation:

	to 31 March 2019 £m
Senior Debt Interest	
Finance Leases	0.0
Debentures	0.0
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	9.3
Index Linked Bonds (£130m)	4.3
Index linked loans (USS)	2.8
Index Linked Loans	9.4
Working Capital Facility	0.1
Capex Drawdown Facility	0.0
Ambac fee	0.8
Commitment fee	0.3
	36.2
Less: interest earned	(0.1)
12 Months Total	36.1

6. Total payments into the DSR Accounts for the period to 30 September 2018 were £17.4m.
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 2018

	£'m	£'m	£'m
Turnover	121.0	-	121.0
Operating costs	(84.9)	-	(84.9)
Profit on disposal of fixed assets	8.2	-	8.2
Other operating income	6.3	-	6.3
	-		
Operating profit	50.6	-	50.6
Income from investments	14.0	(14.0)	-
Interest receivable - group	2.6	(2.6)	(0.0)
Interest receivable - other	(0.0)	0.1	0.1
Interest payable - group	(5.4)	2.6	(2.8)
Interest payable - other	(25.8)	-	(25.8)
Return on pension scheme assets	0.3	-	0.3
	-		
Profit on ordinary activities before taxation	36.3	(13.9)	22.4
Tax (charge)/credit on profit on ordinary activities	(2.6)	-	(2.6)
	-		
Profit on ordinary activities after taxation	33.8	(13.9)	19.9
Dividends	(23.5)	14.0	(9.5)
	-		
	10.3	0.1	10.4
STRGL - pension	1.3	-	1.3
	-		
Profit/(loss) for period taken to P&L reserves	11.6	0.1	11.7

South East Water (Holdings) Limited
Consolidated balance sheet at 30 September 2018

	Companies £'m	Eliminations £'m	Group £'m
Tangible assets	1,539.2	-	1,539.2
Investments	361.4	(361.4)	0.0
Net Current (liabilities)/assets	(36.9)	-	(36.9)
Creditors: amounts falling due after more than one year	(161.6)	-	(161.6)
Current asset investments	15.1	-	15.1
Cash and cash equivalents:			
Current accounts	1.2	-	1.2
DSR	9.8	-	9.8
O&M	0.0	-	0.0
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(944.9)	944.9	0.0
Intra group loan debtors	944.8	(944.8)	0.0
Other HDF group loans	(82.2)	-	(82.2)
Debentures	(1.0)	-	(1.0)
Bonds	(496.0)	-	(496.0)
Indexation	(144.1)	-	(144.1)
Artesian loans	(269.0)	-	(269.0)
Indexation	(108.7)	-	(108.7)
Unamortised costs	5.5	-	5.5
Bank loans	(20.0)	-	(20.0)
Net pension liability	25.1	-	25.1
Net assets	637.8	(361.3)	276.5
Capital and reserves			
Called up share capital	140.7	(49.3)	91.4
Revaluation reserve	253.8	-	253.8
Profit and loss account b/fwd.	229.1	(312.1)	(83.0)
Profit/(Loss) for period	14.2	0.1	14.3
Capital employed	637.8	(361.3)	276.5

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the period ended 30 September 2018

	Companies £'m	Eliminations £'m	Group £'m
At 1 April 2018	229.1	(312.1)	(83.0)
Profit for the year	33.8	(13.9)	19.9
Pension scheme in STRGL	1.3	-	1.3
Dividends	(23.5)	14.0	(9.5)
Movement through reserves	2.6	-	2.6
	14.2	0.1	14.3
At 30 September 2018	243.3	(312.0)	(68.7)