



Severn Trent Water Limited (the "Company")  
Severn Trent Centre  
2 St John's Street  
Coventry  
CV1 2LZ

14 October 2016

### **AGE FINANCIAL GUARANTEE FEE LETTER**

**£35,000,000 facility agreement dated 19 June 2002 and as amended from time to time  
(the "Facility Agreement")**

Dear Sirs

The Company and Assured Guaranty Europe Ltd. ("**AGE**") intend to enter into a Commitment Agreement to be dated on or around the date of this letter (the "**Commitment Agreement**") in relation to the Company's intention to make the Takeover Offer. Terms used but not defined in this AGE Financial Guarantee Fee Letter shall have the meanings given to them in or incorporated into the Commitment Agreement. This AGE Financial Guarantee Fee Letter confirms the agreement of the Company and Assured Guaranty Europe Ltd. ("**AGE**") that the following non-refundable payments are to be made by the Company to AGE in consideration for AGE's entering into the Commitment Agreement and undertaking the obligations set out therein.

The amounts payable to AGE under this AGE Financial Guarantee Fee Letter shall be non-refundable.

This AGE Financial Guarantee Fee Letter is not intended to, and shall not, amend or supersede any pre-existing fee arrangements between Artesian Finance plc and AGE (formerly Financial Security Assurance (U.K.) Limited).

#### **AGE Financial Guarantee Fee: Scheduled Payments**

The Company shall pay to AGE a fee of 12.5 basis points multiplied by the Indexed Loan Amount (as defined in the Facility Agreement) on each Scheduled Payment Date following Completion until the date on which the Loan has been paid in full.

#### ***First AGE Financial Guarantee Fee Instalment***

The first instalment (the "**First Instalment**") shall be paid on the first Scheduled Payment Date following Completion (the "**First Instalment Payment Date**").

The First Instalment shall equal 12.5 basis points multiplied by the Indexed Loan Amount at close of business on the first Scheduled Payment Date following Completion multiplied by the First Instalment Day-Count Fraction.

For these purposes:

"**First Instalment Day-Count Fraction**" means the actual number of days in the First Instalment Period divided by 360; and

**“First Instalment Period”** means the period from and including the date of Completion to the first Scheduled Payment Date following Completion.

### ***Subsequent AGE Financial Guarantee Fee Instalments***

Thereafter, the AGE Financial Guarantee Fee shall be paid on each subsequent Scheduled Payment Date after the First Instalment Payment Date in arrear until the date on which the Loan has been paid in full.

Each payment instalment of the AGE Financial Guarantee Fee shall equal 12.5 basis points multiplied by the Indexed Loan Amount at close of business on the immediately preceding Scheduled Payment Date divided by two. Any portion of the AGE Financial Guarantee Fee that is not paid to AGE on the Scheduled Payment Date when such portion was scheduled to be paid shall accrue interest from and including such Scheduled Payment Date until and including the date paid in full at the rate of LIBOR plus 2% per annum (the **“Default Interest”**).

The payments referred to above shall together constitute the **“AGE Financial Guarantee Fee”**.

### **Payments on Dates of Early Redemption or Acceleration**

In the event that the Loan (in whole or in part) becomes due or is repaid (including pursuant to clause 9.2 (*Bond purchase option*) of the Facility Agreement) on a date before the final Scheduled Payment Date under clause 8 (*Repayment*) of the Facility Agreement or on an accelerated basis as a result of an Event of Default or any other circumstance (such date being the **“Relevant Date”**), the Borrower shall pay to AGE on the Relevant Date:

- i. an amount equal to the sum of the net present value (such net present value to be discounted at the Discount Rate) of all instalments of the AGE Financial Guarantee Fee that would have become due and payable on each Scheduled Payment Date from and after the Relevant Date until and including the final Scheduled Payment Date assuming that the Indexed Loan Amount for the purposes of determining each scheduled instalment of the AGE Financial Guarantee Fee shall be equal to the Relevant Indexed Loan Amount (and no prepayment in whole or in part had been made); and
- ii. in respect of the period from the last Scheduled Payment Date prior to the Relevant Date until and including the Relevant Date (the **“Relevant Period”**), an amount equal to 12.5 basis points multiplied by the Relevant Indexed Loan Amount at close of business on the Relevant Date multiplied by the Relevant Day-Count Fraction; and
- iii. any amounts of the AGE Financial Guarantee Fee due and unpaid for which Default Interest (as defined above) shall apply.

For these purposes:

**“Discount Rate”** means the sum (expressed as a percentage rate per annum) of:

- i. the yield on the UK RPI-linked gilt with the closest maturity to the maturity of the Loan; plus
- ii. the Severn Trent Spread;

**“Relevant Day-Count Fraction”** means the actual number of days in such Relevant Period divided by 360;

**“Relevant Indexed Loan Amount”** means the Loan (or part thereof) together with interest accrued but unpaid up to and including the Relevant Date such amount by the Borrower in each case multiplied by the Index Ratio applicable to the month in which the Relevant Date falls; and

**“Severn Trent Spread”** means:

- i. the yield on the Severn Trent RPI-linked public bond with the closest maturity to the maturity of the Loan (the “**Severn Trent Bond**”); minus
- ii. the yield on the UK RPI-linked gilt with the closest maturity to the maturity of the Severn Trent Bond.

**Payment Instructions**

All payments shall be made in immediately available funds by wire transfer to AGE to the account set forth below, or to such other account as AGE may notify from time to time, with the following details specifically stated on the wire instructions:

Currency	[REDACTED]
Beneficiary Bank	[REDACTED]
Swift	[REDACTED]
Address	[REDACTED]
Sort Code	[REDACTED]
Beneficiary	[REDACTED]
Account #	[REDACTED]
IBAN	[REDACTED]
Reference	[REDACTED]

**Miscellaneous**

All payments made by the Company under this AGE Financial Guarantee Fee Letter shall be made subject to the Borrower STID.

All payments by the Company to AGE under this AGE Financial Guarantee Fee Letter shall be made without any deduction or withholding for or on account of any tax, levy, impost, duty, charge, assessment or fee of any nature unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If the Company is required to deduct or withhold, then it shall: (a) promptly notify AGE of such requirement; (b) pay to AGE, in addition to the amount to which AGE is otherwise entitled, such additional amount as is necessary to ensure that the net amount actually received by AGE (free and clear of taxes, whether assessed against the payor or AGE) will equal the full amount that AGE would have received had no such deduction or withholding been required; and (c) pay to the relevant authorities the full amount required to be deducted or withheld, including the full amount required to be deducted or withheld from any additional amount paid under (b).

All consideration expressed to be payable under the Borrower Finance Documents by the Company to AGE will be deemed to be exclusive of any VAT. If VAT is chargeable on any supply made to the Company by AGE in connection with any Transaction Document, the Company will pay to AGE (in addition to and at the same time as paying the consideration) an amount equal to the amount of VAT.

The AGE Financial Guarantee Fee does not include the fees and expenses of any third party.

The provisions of clauses 5 (*Assignment*), 6 (*Amendments*), 7 (*Variation*), 8 (*Third Party Rights*) and 9 (*Notices*) of the Commitment Agreement shall be incorporated into this letter as if set out in full in this letter and as if references in those clauses to "this Agreement" are references to this letter.

This letter may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this letter.

**Confidentiality**

The Company agrees that it shall not disclose to any third party the terms of this AGE Financial Guarantee Fee Letter. The Company acknowledges that any disclosure of the information contained in this AGE Financial Guarantee Fee Letter may seriously and adversely affect the interests of AGE.

**Governing law**

This letter and any non-contractual obligations arising out of or in connection with it are governed by English law.

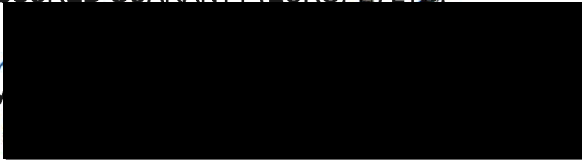
**Jurisdiction**

The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to the existence, validity or termination of this letter or any non-contractual obligation arising out of or in connection with this Agreement).

Yours faithfully

ASSURED GUARANTY (EUROPE) LTD

By



Title: *MANAGING DIRECTOR*

Agreed and accepted as of the date first above written:

SEVERN TRENT WATER LIMITED

By \_\_\_\_\_

Title:

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Yours faithfully

ASSURED GUARANTY (EUROPE) LTD.

By \_\_\_\_\_

Title:

Agreed and accepted as of the date first above written:

SEVERN TRENT WATER LIMITED

By \_\_\_\_\_

Title: *CHIEF EXECUTIVE*