

**Greensands Financing plc**

**Compliance Certificate**

**For the period ended 30 September 2020**

**Confidential**

## **Important Notice**

This report is being distributed in fulfilment of a finance document, the Common Terms Agreement. It is directed to, and intended for, existing investors in the company. No other persons should act or rely on it. The company makes no representation as to the accuracy of forecast information. This report should not be relied on as a guide to future performance and should not be relied on in deciding whether to undertake future investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

## **Investor Report & Compliance Certificate**

<b>Contents</b>	<b>Page</b>
Calculation of covenant ratios	4
Bonds, Authorised Loan Facilities and Leases	5
Interest Cover Ratios	6
Regulatory Asset Ratios	7
Declaration	8

### Calculation of covenant ratios

Ref.		31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
1	Net Cash Flow (historic)						
	Net operating cash flow of SWS	476.7	370.0	422.3	450.2	441.0	449.9
	Net operating cash flow outside of SWS	0.0	0.0	0.0	0.0	0.0	0.0
		<u>476.7</u>	<u>370.0</u>	<u>422.3</u>	<u>450.2</u>	<u>441.0</u>	<u>449.9</u>
2	Net Cash Flow (forward looking)						
	Net Appointed operating cash flow of SWS	474.1	368.1	420.5	448.5	439.3	448.2
	Net operating cash flow outside of SWS	0.0	0.0	0.0	0.0	0.0	0.0
		<u>474.1</u>	<u>368.1</u>	<u>420.5</u>	<u>448.5</u>	<u>439.3</u>	<u>448.2</u>
3	MidCo Debt Interest						
	Senior debt interest of SWS	115.2	74.4	67.6	72.7	73.2	76.0
	Debt interest of MidCo	17.9	19.3	18.8	18.8	19.3	19.8
		<u>133.1</u>	<u>93.7</u>	<u>86.4</u>	<u>91.5</u>	<u>92.5</u>	<u>95.8</u>
	Closing cash:						
	Closing cash at Southern Water	184.4	430.5	273.0	83.1	28.3	506.5
	Opening Greensands Finance cash	27.3	78.4	56.8	37.7	27.5	27.5
	* Proceeds from subordinate debt and distributions	59.1	0.0	0.0	0.0	0.0	0.0
	** Net proceeds from financing and drawings from RCF	62.0	0.0	0.0	10.7	19.8	20.2
	Payment of interest and fees	-20.0	-21.6	-19.1	-20.9	-19.8	-20.2
	Payments to Greensands Investments	-50.0	0.0	0.0	0.0	0.0	0.0
	Investment in SWS	0.0	0.0	0.0	0.0	0.0	0.0
	Closing Greensands Finance cash	<u>78.4</u>	<u>56.8</u>	<u>37.7</u>	<u>27.5</u>	<u>27.5</u>	<u>27.5</u>
4	Closing consolidated cash	<u>262.8</u>	<u>487.3</u>	<u>310.7</u>	<u>110.6</u>	<u>55.8</u>	<u>534.0</u>
	Opening Restricted cash balance in debt service payment account	27.3	27.5	27.5	27.5	27.5	27.5
	Undrawn committed bank facilities at Greensands Finance	0.0	0.0	0.0	0.0	0.0	0.0

Net Cash Flow represents net operating cash flow excluding capital expenditure and the movement in capital creditors. This is the same definition as the SWS covenants although defined terms are different. For MidCo, 'Net Cash Flow (historic)' is consistent with 'Net Total Income' used for SWS, and Net Cash Flow (forward looking)' is consistent with 'Net Appointed Income' used for SWS.

\* The SWS Board has resolved that the company will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position. The SWS Board has therefore not yet forecast a level of dividend for the AMP7 period to 2025.

\*\* Net new proceeds are from a notional class of new finance included to forecast compliance ratios correctly given that opening cash at Greensands Finance is insufficient to meet debt service for all years of the period to 2025. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

## Bonds, Authorised Loan Facilities and Leases

Ref.	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
<b><u>Southern Water</u></b>						
* Senior £350m A1 6.192% Fixed Rate Bonds due 2029	350.0	350.0	350.0	350.0	350.0	350.0
* £150m A2a 3.706% Index-linked Bonds due 2034	243.7	247.7	252.5	259.8	267.3	275.1
* £35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	58.9	60.6	62.4	64.2
£350m A4 6.64% Fixed Rate Bonds due 2026	350.0	350.0	350.0	350.0	350.0	350.0
£150m A5 3.816% Index-linked Bonds due 2023	243.7	247.7	252.5	0.0	0.0	0.0
* £350m A7 5.0% Fixed Rate Bonds due 2021	350.0	0.0	0.0	0.0	0.0	0.0
* £150m A8 5.0% Fixed Rate Bonds due 2041	150.0	150.0	150.0	150.0	150.0	150.0
* £200m A9 4.5% Fixed Rate Bonds due 2052	200.0	200.0	200.0	200.0	200.0	200.0
* £300m A10 5.125% Fixed Rate Bonds due 2056	300.0	300.0	300.0	300.0	300.0	300.0
£375m A12 2.375% Fixed Rate Bonds due 2028	0.0	375.0	375.0	375.0	375.0	375.0
£450m A13 3.0% Fixed Rate Bonds due 2037	0.0	450.0	450.0	450.0	450.0	450.0
RPI accretion on Index-Linked swaps	202.6	28.0	40.9	95.8	146.1	204.3
£165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.4	277.7	285.8	294.1	302.6
* £156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.1	257.0	264.5	272.2	280.0
£100m EIB Index Linked loan due 2025	92.0	77.1	61.9	46.5	30.1	12.8
£250m USPP Fixed Rate Loan due 2031 / 2036	250.0	250.0	250.0	250.0	250.0	250.0
** New cash required	0.0	425.0	425.0	625.0	625.0	1225.0
Drawings under the Revolving Credit Facility	330.0	0.0	0.0	0.0	100.0	0.0
SWS Indebtedness	3,635.2	4,032.8	4,051.4	4,063.0	4,222.2	4,789.0
<b><u>Greensands Finance</u></b>						
loan facilities	401.5	401.5	401.5	401.5	366.2	366.2
Bank loans	50.0	50.0	50.0	50.0	50.0	50.0
Drawings under RCF	100.0	100.0	100.0	100.0	-	-
** New cash required				10.7	165.8	186.0
	551.5	551.5	551.5	562.2	582.0	602.2
4 Cash balances	262.8	487.3	310.7	110.6	55.8	534.0
5 Consolidated net debt	3,923.9	4,097.0	4,292.2	4,514.6	4,748.4	4,857.2

\* Wrapped by AG

\*\* 'New cash required' is a notional class of debt included to forecast compliance ratios correctly. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

**Note:** The SWS Board has resolved that SWS will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position. The SWS Board has therefore not yet forecast a level of dividend for the AMP7 period to 2025.

## Interest Cover Ratios

	Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
A	Net Cash Flow - historic (Ref. 1)		476.7	370.0	422.3	450.2	441.0	449.9
B	Net Cash Flow - forward (Ref. 2)		474.1	368.1	420.5	448.5	439.3	448.2
C	Depreciation of the RCV (RCV run down)		282.7	269.2	279.4	295.1	308.6	316.7
D	Debt interest (Ref. 3)		133.1	93.7	86.4	91.5	92.5	95.8
E	Period end VAT debtor		10.2	7.5	8.4	8.3	8.3	8.3
Interest Cover Ratio								
	Historic: (A-C+E)/D	1.10	1.05	1.53				
	Forward looking: (B-C+E)/D	1.10	1.05		1.14	1.73	1.77	1.50
Average Interest Cover Ratio								
	Historic: (3 years average)	1.20	N/A	1.48				
	Projected: (3 years average)	1.20	N/A		1.54	1.67	1.57	1.48

**Note:** The SWS Board has resolved that SWS will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position. The SWS Board has therefore not yet forecast a level of dividend for the AMP7 period to 2025. Financial forecasts include a notional class of new finance in order to forecast compliance ratios correctly given that opening cash at Greensands Finance is insufficient to meet all debt obligations for the period to 2025. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

## Regulatory Asset Ratios

		Lock up	Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
F	Consolidated net debt (Ref. 5)				3,923.9	4,097.0	4,292.2	4,514.6	4,748.4	4,857.2
G	RCV				5,141.9	5,135.2	5,414.0	5,732.4	5,930.5	6,080.4
Regulated Asset Ratio										
	Historic / Projected: F/G	0.850	0.900	0.950	0.763	0.798	0.793	0.788	0.801	0.799
Southern Water Class A ratio										
	Historic / Projected:	0.750	0.900	0.950	0.671	0.701	0.698	0.694	0.707	0.704

**Note:** The SWS Board has resolved that SWS will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position. The SWS Board has therefore not yet forecast a level of dividend for the AMP7 period to 2025. Financial forecasts include a notional class of new finance in order to forecast compliance ratios correctly given that opening cash at Greensands Finance is insufficient to meet all debt obligations for the period to 2025. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

To: BNY Melon Corporate Trustee Services Ltd as Security Trustee

From: MidCo as Transaction Agent

**Declaration**

We confirm that the above Ratios have been calculated as at the Test Date immediately prior to delivery of this Compliance Certificate using the most recently available financial information required to be provided by the Obligors under Schedule 2 (Covenants) to the Agreement and delivered together with this Compliance Certificate

We confirm that no Trigger Event, Potential Trigger Event, Event of Default or Potential Event of Default has occurred and is continuing

We confirm that all information contained in this Compliance Certificate is accurate in all material respects



Bronte Somes  
Director  
For and on behalf of  
MidCo as Transaction Agent



John Lynch  
Director  
For and on behalf of  
MidCo as Transaction Agent

**Contact:**

Steve Collins  
Group Treasurer  
Telephone: 01903 272056  
Mobile: 07748 320956  
Email: SteveM.Collins@southernwater.co.uk