

# Investor Report

For the year ended 31 December 2019

The Security Group is defined as per the Master Definitions Agreement, as ESP Utilities Group Limited and each of its subsidiaries.

The Investor Report provides information on the Security Group in 2019, including regulatory and business developments, financial performance and other information in accordance with the requirements of the Common Terms Agreement dated 3 October 2017.

## 1. General Overview

During 2019 the Security Group delivered continued growth in its turnover across both the gas and electricity sectors. Turnover (including DUoS<sup>1</sup>) increased by 10% against prior year to £69.3m, leading to operating profit for the year of £27.9m (2018 £27.5m).

Growth has been generated by an increase in the number of installed connections, which as at the end of the year was 700,439, implying growth of 10.7% in the year. As at 31 December 2019 the order book stood at 253,400 connections to be built out.

<u>Year to 31 December</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Turnover	£38.2m	£45.7m	£53.6m	£62.9m	£69.3m
Operating Profit	£19.1m	£22.6m	£24.1m	£27.5m	£27.9m
Connections at year end	443,395	502,707	567,266	632,627	700,439

Further information is available in the Strategic Report within the Financial Statements of ESP Utilities Group Limited.

## 2. Business update

As a transporter of gas and electricity within the UK the Group's ongoing business has continued with limited interruption during the Covid-19 lockdown. The Group has continued to provide uninterrupted energy to homes and businesses, adapting working practises while maintaining our commitment to providing the very best service.

In the first two billing cycles since lockdown commenced the group has suffered a minimal reduction in consumption based billing. There has been no increase in costs. New connections numbers have also fallen during lockdown, and it is expected that there will be a delay in new connections coming on for the next few months as Housebuilders slowly resume operations.

On 31<sup>st</sup> May 2019 Thomas Butler resigned as a Director of all Security Group companies.

On 17 September 2019 Stuart Williams resigned as a Director of all Security Group Companies.

On 17 September 2019 Adam Miller was appointed as a Director of all Security Group Companies.

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<sup>1</sup> DUoS = Distribution Use of System charges which are passed through to DNOs.

### 3. Capital Expenditure

Capital Expenditure for the Security Group was as follows:

<u>Year to 31 December</u>	<u>2018</u>	<u>2019</u>
Gas	£23.4m	£21.3m
Electricity	<u>£9.9m</u>	<u>£11.2m</u>
Total	<u>£33.3m</u>	<u>£32.5m</u>

ESPUG Finance Limited incurred no Capital Expenditure during 2019.

### 4. Financing

On 9 March 2020 the Security Group issued £30m of 2.116% private loan placements which mature on 13 February 2035.

During 2019 £20m has been drawn down against the Capex Facility. There have been no drawdowns of funds from the Liquidity Facility or Working Capital Facility. As at 24<sup>th</sup> June 2020 the issued loan notes were:

£54m 2.69% Senior Secured Tranche A note due 6th October 2027  
£85m 3.05% Senior Secured Tranche B note due 6th October 2032  
£30m 2.116% Senior Secured note due 13<sup>th</sup> February 2035  
£85m 3.35% Senior Secured Tranche C note due 6th October 2037

### 5. Acquisitions or Disposals

On 21st December 2019 E.S. Pipelines Limited (ESP) entered into an agreement with Fulcrum Utility Services Limited to purchase its domestic customer gas connection assets, including order book and associated meters for circa £46m. The first tranche of the deal completed on 31 March 2020, with £16.8m paid on completion and circa 30,000 new connections added.

There were no disposals in 2019.

### 6. Restricted Payment Condition

The amount of any Restricted Payment made since the date of the previous Compliance Certificate is £8.000m.

### 7. Current Hedging Position

No member of the Security Group bears unhedged currency risk.

No member of the Security Group has entered into any new Treasury Transaction with respect to fluctuations in inflation since the Closing Date.

The Security Group is in compliance with the Interest Rate Risk Principles described in schedule 7 of the Common Terms Agreement.

We confirm that the Security Group is in compliance with the Hedging Policy.

## 8. Ratios

We confirm that, in respect of this Investor Report dated 24 June 2020, 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 I (Information Covenants) of Schedule 2 (Security Group Covenants) of the Common Terms Agreement:

- (a) the Interest Coverage Ratio in respect of the Relevant Period is estimated to be greater than or equal to 4.84x; and
- (b) the Leverage Ratio in respect of the Relevant Period is or is estimated to be less than or equal to 6.21x, (together the **Ratios**).

We confirm that each of the above Ratios has been calculated in respect of the Relevant Period or as at the Calculation Dates for which it is required to be calculated under the Common Terms Agreement.

## 9. Confirmations

We confirm that:

- (a) No Default or Trigger Event has occurred and is continuing;
- (b) The Security Group is in compliance with the Hedging Policy; and
- (c) The statements set out in this Investors Report are accurate in all material respects.

Yours faithfully



Paul Miles  
Chief Financial Officer

Signing without personal liability, for and on behalf of  
**ESPUG Finance Limited as Security Group Agent**

