

# Investor Report

For the year ended 31 December 2022

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 2022, 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 2022 the Security Group delivered continued growth in its turnover across both the gas and electricity sectors. Turnover (including DUoS<sup>1</sup>) increased due to a combination of the increase in connections, and the recovery of the Last Resort Supply Payment (£6.8m) through turnover in ESP Electricity Limited to £109.0m (2021 £88.6m). Operating profit for the year increased by 13% to £38.7m (2021 £34.2m).

Growth has been generated by an increase in the number of installed connections, with 94% of the growth directly related to the build out of the Groups order book, and 6% from connections acquired from Fulcrum Utility Services Limited. As at 31 December 2022 the order book stood at 271,940 connections to be built out, including 32,039 water connections won.

<u>Year to 31 December</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Turnover	£62.9m	£69.3m	£78.2m	£88.6m	£109.0m
Operating Profit	£27.5m	£27.9m	£30.2m	£32.0m	£34.1m
Connections at year end	632,627	700,439	796,825	873,163	948,895

Further information, including details on the Last Resort Supplier Levy, is available in the Strategic Report within the Financial Statements of ESP Utilities Group Limited.

## 2. Business update

On 1st January 2022 ESP Water Limited formally commenced trading. The first water licences were granted in 2022 and the initial connections from those sites have occurred in Q1 2023. The addition of water part of a broader multi utility offering has allowed the Group to be increasingly competitive on large, multi-year sites which is supporting ESP in the adoption of additional gas and electricity networks, as well as, providing another regulated revenue stream.

The Directors have drafted plans to restructure the group and transfer the trade and assets of ESP Connections Limited, ESP Networks Limited and ESP Pipelines Limited to E.S. Pipelines Limited, thereby consolidating all gas networks into one reporting company. This plan has not been finalised and is subject to review and approval by Ofgem and the Lenders before a final decision can be taken.

On 21 February 2023 Peter Whittaker 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, excluding connections acquired from Fulcrum Utility Services Limited, for the Security Group was as follows:

<u>Year to 31 December</u>	<u>2021</u>	<u>2022</u>
Gas	£24.9m	£24.8m
Electricity	<u>£14.4m</u>	<u>£18.9m</u>
Total	<u>£39.3m</u>	<u>£43.7m</u>

ESPUG Finance Limited incurred no Capital Expenditure during 2022.

### 4. Financing

In October 2021 the capital expenditure, working capital and liquidity facilities were extended for a further five years. During 2022 a drawdown of £30m was made against the Capex Facility, total funds drawn total £60m against the facility of £100m. There have been no drawdowns of funds from the Liquidity Facility or Working Capital Facility. As at 21st June 2023 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  
£30m at 2.53% Senior Secured note due 30th June 2036  
£85m 3.35% Senior Secured Tranche C note due 6th October 2037  
£30m 2.736% Senior Secured note due 13<sup>th</sup> May 2041

### 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 for £18.7m completed on 31 March 2020, with a further £4.7m paid for a second tranche during 2020. In 2021 a third and fourth tranche of assets were purchased totalling £6.8m, and in 2022 tranches 5 and 6 were completed totalling £4.0m. The balance relating to part-complete networks and the internal and external order books will be payable over the next 3 years, as assets are built out and transferred to ESP.

There were no disposals in 2022.

### 6. Restricted Payment Condition

The amount of any Restricted Payment made since the date of the previous Compliance Certificate is £14.250m.

### 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 21st June 2023, 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 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 4.50x; and
- (b) the Leverage Ratio in respect of the Relevant Period is or is estimated to be less than or equal to 6.85x, (together the **Ratios**).

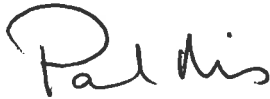
We confirm that each of the above Ratios has been calculated in respect of the Relevant Period or as at the Calculation Dates for which it is required to be calculated under the Common Terms Agreement.

## 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**