

Investor Report

For the year ended 31 December 2017

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 2017, 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 2017 the Security Group delivered continued growth in its turnover across both the gas and electricity sectors. Turnover (including DUoS¹) increased by 17% against prior year to £53.6m, leading to operating profit for the year of £24.1m (2016 £22.6m).

Growth has been generated by an increase in the number of installed connections, which as at the end of the year was 567,226, implying growth of 12.8% in the year. As at 31 December 2017 the order book stood at 197,000 connections to be built out.

<u>Year to 31 December</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Turnover	£26.0m	£31.9m	£38.2m	£45.7m	£53.6m
Operating Profit	£13.2m	£16.5m	£19.1m	£22.6m	£24.1m
Connections at year end	349,129	389,582	443,395	502,707	567,266

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

2. Regulatory and business update

Gas transportation charges move in line with GDN charges but are limited by a RPC Floor & Ceiling up to 2024, and electricity charges move in line with the DNO charges. Management continues to monitor the Ofgem RIIO-2 consultation process but at this time is not making any changes to its long-term pricing assumptions.

A Retail Energy Code is being developed by the UK Energy industry to support new centralised switching arrangements. This will replace many of the Security Group's current obligations relating to data transfer and customer switching. The centralised service is being procured now but is not expected to be operational before 2020.

The smart meter rollout continues to lag behind forecasts, with management now projecting that all of the Security Group's 'dumb' meters will be replaced by 2022 (previously 2021). Presently just over 50% of new meter-fits are 'smart', although this percentage is gradually increasing. It is expected that SMETS-2 meters will start being installed from Q1 2019.

Almost all Security Group gas connection wins are with meters.

Operationally the Security Group continues to invest to ensure that its connections are safe, compliant and efficient. Recent programmes of work include replacement of all telemetry for pressure regulating stations which has resulted in a reduction in call outs and mobile charges; increased inspections to assure the safety of high rise installations in the wake of the Grenfell House disaster; a maintenance response to an emergent manufacturers defect for gas line valves; and a number of upgrades to ensure continuity of supply to gas critical manufacturing plant.

¹ DUoS = Distribution Use of System charges which are passed through to DNOs.

On 8 January 2018 Nick Horler was appointed as Non-Executive Chairman of ESP Utilities Group Limited.

On 11 June 2018 Anna Dellis was appointed as a Director of E.S. Pipelines Limited.

On 13 June 2018 Robert Wallace resigned from the boards of all Security Group companies.

3. Capital Expenditure

Capital Expenditure for the Security Group was as follows:

<u>Year to 31 December</u>	<u>2016</u>	<u>2017</u>
Gas	£16.2m	£20.1m
Electricity	<u>£7.9m</u>	<u>£9.8m</u>
Total	<u>£24.1m</u>	<u>£29.9m</u>

ESPUG Finance Limited incurred no Capital Expenditure during 2017.

4. Financing

The Security Group has not issued any further private loan placements since the initial issue on 6 October 2017. In addition there have been no drawdowns of funds from the Capex Facility, Liquidity Facility or Working Capital Facility. As at 31 December 2017 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

£85m 3.35% Senior Secured Tranche C note due 6th October 2037

5. Acquisitions or Disposals

There were no acquisitions or disposals in 2017.

6. Restricted Payment Condition

There were no restricted payments in 2017.

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 19 June 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 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 4.14x; and
- (b) the Leverage Ratio in respect of the Relevant Period is or is estimated to be less than or equal to 6.97x, (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

A handwritten signature in black ink, appearing to read 'T Butler', with a large, sweeping flourish underneath.

Thomas Butler
Finance Director

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