

Investor Report

For the year ended 31 December 2023

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 2023, 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 2023 the Security Group delivered continued growth in its turnover across both the gas and electricity sectors. Turnover (including DUoS¹) increased due the increase in connections to £123.3m (2022 £109.0m). Operating profit for the year increased by 24% to £42.5m (2022 £34.1m).

Growth has been generated by an increase in the number of installed connections, with 91% of the growth directly related to the build out of the Groups order book, and 9% from connections acquired from Fulcrum Utility Services Limited. As at 31 December 2023 the order book stood at 272,127 connections to be built out, including 58,800 water connections won.

<u>Year to 31 December</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Turnover	£69.3m	£78.2m	£88.6m	£109.0m	£123.3m
Operating Profit	£27.9m	£30.2m	£32.0m	£34.1m	£42.5m
Connections at year end	700,439	796,825	873,163	948,895	1,004,605

2. Business update

Demand for residential new build homes continued to be low during 2023 due to inflation, interest rate rises and recession. This has resulted in fewer opportunities in gas and electricity new housing. The water proposition however has opened up a new market for the Group, with the resultant multi-utility offering making ESP increasingly competitive and able to take advantage of new opportunities in the coming period. Demand for Industrial and commercial connections, including EV charging sites remained strong throughout 2023.

On 1st December 2023 there was a restructure of the group. The trade and assets of ESP Connections Limited, ESP Networks Limited and ESP Pipelines Limited were hived up to E.S. Pipelines Limited, thereby consolidating all gas networks into one reporting company. Consolidating the Group's gas licences into E.S. Pipelines Limited will provide both operational and overhead efficiencies, delivering cost savings in the long run.

On 18 March 2024 Simon Loh was appointed as a Director of all Security Group Companies.

¹ 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>2022</u>	<u>2023</u>
Gas	£24.8m	£21.0m
Electricity	£18.9m	£24.1m
Water	-	£0.3m
Total	<u>£43.7m</u>	<u>£45.4m</u>

ESPUG Finance Limited incurred no Capital Expenditure during 2023.

4. Financing

In October 2023 two loan notes were issued totalling £120m. During 2023 £20m was drawn down against the £100m capital expenditure facility. The entire capex loan balance was repaid in October 2023 when the additional loan notes were issued. The £100m facility remains in place. Interest is payable at SONIA+1.62%.

There have been no drawdowns of funds from the Liquidity Facility or Working Capital Facility.

As at 17th June 2024 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
£60m at 6.67% Senior Secured Tranche B note due 19th October 2033
£30m 2.116% Senior Secured note due 13th 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 13th May 2041
£60m at 6.91% Senior Secured Tranche B note due 19th October 2043

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. Since 2020 nine tranches of assets have been purchased at a total cost of £40.3m. The balance relating to part-complete networks and the internal and external order books will be payable over the next 2 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 £14.1m.

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 17th June 2024, 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 3.87x; and
- (b) the Leverage Ratio in respect of the Relevant Period is or is estimated to be less than or equal to 6.69x, (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

