

Investor Report

For the year ended 31 December 2018

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 2018, 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 2018 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 £62.9m, leading to operating profit for the year of £27.5m (2017 £24.1m).

Growth has been generated by an increase in the number of installed connections, which as at the end of the year was 632,627, implying growth of 11.5% in the year. As at 31 December 2018 the order book stood at 225,000 connections to be built out.

<u>Year to 31 December</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Turnover	£31.9m	£38.2m	£45.7m	£53.6m	£62.9m
Operating Profit	£16.5m	£19.1m	£22.6m	£24.1m	£27.5m
Connections at year end	389,582	443,395	502,707	567,266	632,627

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. Any impact on ESP revenues is likely to be limited as the majority of existing connections are already protected by the RPC mechanism.

Delays continue with the smart meter rollout, and are again lagging behind forecasts by a further year. Revised management predictions are that all of the Security Group's 'dumb' meters will now be replaced by 2023 (previously 2022). New meter-fits are now predominantly 'smart', although restricted availability on the supply of SMETS-2 smart meters is impacting this.

Almost all Security Group gas connection wins are with meters.

On 1 October 2018 Kevin O'Connor was appointed as Chief Executive Officer for the Group, and as a Director of all Security Group companies on 10 December 2018. On 1 January 2019 Paul Miles was appointed as Chief Financial Officer for the Group, and as a Director of all Security Group companies on 21 January 2019. Both are now well established in the business and working together with the core of the existing senior management team to further the growth of the Group.

On 13 July 2018 Sebastian Schwengber was appointed as a Director of ESP Utilities Group Limited.

On 31st May 2019 Thomas Butler resigned 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 for the Security Group was as follows:

<u>Year to 31 December</u>	<u>2017</u>	<u>2018</u>
Gas	£20.1m	£23.4m
Electricity	<u>£9.8m</u>	<u>£9.9m</u>
Total	<u>£29.9m</u>	<u>£33.3m</u>

ESPUG Finance Limited incurred no Capital Expenditure during 2018.

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 2018.

6. Restricted Payment Condition

There were no restricted payments in 2018.

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 2019, 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 4.81x; and
 - (b) the Leverage Ratio in respect of the Relevant Period is or is estimated to be less than or equal to 5.97x,
- (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



Paul Miles
Chief Financial Officer

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