

# **ESPUG Finance Limited**

Annual Report and Financial Statements

Year Ended

31 December 2023

Registered number 10933801

# ESPUG Finance Limited

## Annual report and financial statements for the year ended 31 December 2023

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#### Directors

Anna Dellis  
Simon Lees  
Simon Loh  
Paul Miles  
Adam Miller  
Stephen Morris  
Kevin O'Connor  
Bernardo Sottomayor  
Victoria Spiers  
Yaadvinder Virdee  
Peter Whittaker

#### Secretary and registered office

Beach Secretaries Limited, 1<sup>st</sup> Floor, Bluebird House, Mole Business Park, Leatherhead, KT22 7BA

#### Company number

10933801

#### Auditor

Deloitte LLP, 2 New Street Square, London. EC4A 3BZ

# ESPUG Finance Limited

## Strategic report for the year ended 31 December 2023

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### Principal activities and future developments

The principal activity of the Company is that of a holding company. The Company has six trading subsidiaries (together “the Group”): one subsidiary is an electrical distribution company engaged in the development of electrical distribution as an independent operator, one subsidiary is an independent water company, providing water and waste-water to residential and commercial customers, together with four subsidiaries operating as gas transporter companies engaged in the development of gas pipelines, the transportation of gas and metering services throughout mainland UK.

On 1<sup>st</sup> 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.

In 2021 the Group launched ESP Water, which further supports our existing customers by adopting water and wastewater networks as part of a multi-utility proposition. As an early mover into the independent water adoption market, this has aided our proposition through an additional, regulated revenue stream. This strategy has proved successful with our customers, and ESP Water ends 2023 with 223 connections on supply and an orderbook of over 58,800 connections to be built out in 2024 and beyond.

The Directors consider that there will be no material changes to the business of the Company going forward.

### Review of the business

A statement of comprehensive income is set out on page 12 and shows turnover for the period of £nil (2022: £nil) and profit for the period of £36,310,000 (2022: £13,850,000), due to net interest received on intercompany balances.

The Directors considered loan interest to be the main key performance indicator as this is a holding company with the only other material transactions being dividends. Interest payable for the period was £7,785,000 (2022: £12,003,000). Interest received for the period was £22,164,000 (2022: £18,453,000).

A dividend of £28,850,000 was paid during the year (2022: £14,750,000). Dividends of £22,000,000 were received during the year (2022: £7,500,000).

On 5th October 2017 the Group refinanced its external debt borrowings. The Group’s facilities consist of a banking syndicate of seven banks providing £434m of private loan placements, £5m working capital, £100m capital expenditure and £15m liquidity facilities. In October 2021 the working capital, capital expenditure and liquidity facilities were renewed for a further 5 years. The loan notes have maturity dates of ten, fifteen and twenty years at a fixed rate of interest. These loans have an investment grade credit rating of Baa2 from Moody’s Investor Services.

In October 2023 the Group issued new Private Placements of £120m, using £80m of this to repay the Capex loan balance. The remaining £40m is available to fund future Capex purchases. The £100m Capex Loan facility remains in place at the year-end and is available for future drawn downs.

### Principal risks and uncertainties

The Company is a holding company therefore what is relevant in terms of risks and uncertainties is in respect of the trading of the subsidiaries.

# ESPUG Finance Limited

## Strategic report (*continued*) for the year ended 31 December 2023

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### Principal risks and uncertainties (*continued*)

The market for the adoption of new housing networks is competitive. The availability of new housing connections from customers is dependent on the overall housing market, which is dependent upon a positive economic outlook.

The ownership and operation of gas pipelines represents approximately 36% (2022: 34%) of the Group's revenue. The Office of Gas and Electricity Markets ("Ofgem") regulates the activities of the Group, including the transportation tariffs that the Group charges. In 2004 Ofgem introduced the Relative Price Control ("RPC") mechanism. The purpose of RPC is to keep parity between the charges levied by Independent Gas Transporters (iGTs), including the Group's, and the operators of the Gas Distribution Networks. RPC allows the Group to increase prices partly in line with the Retail Price Index ("RPI"). Therefore, the Group's income will vary in accordance with RPI.

The Group also operates and maintains the meters connected to its gas pipelines. Meter income represents approximately 9% (2022: 9%) of the Group's revenue. The meter market in the UK has been open to competition since 2004 and over the next 4 years it is forecast that dumb meter revenue will materially decline as a consequence of the Government mandated smart meter roll out. However, the Group business model predicts an increase in the smart meter portfolio as new meters are installed with new connections going forward.

The ownership and operation of electricity connections represents 54% (2022: 56%) of the Group's revenue; the importance of this market is increasing each year as the market matures and more connections are installed on Independent Distribution Network Operator (iDNO) networks. Historically, electricity connections installed were adopted by the incumbent DNOs until 2001 when the market was opened to competition allowing iDNOs to adopt electricity connections. The regulatory changes in April 2010 to standardise the iDNOs' tariffs has opened up most of the market to competition, providing greater opportunities to iDNOs. As the market continues to mature it is expected that the iDNOs will obtain a similar market presence as the iGTs in the gas market.

The planned phasing out of new connections of gas heated residential properties, to commence for new applications from April 2024 in Scotland and from 2025 in England and Wales, will have a significant impact on utilities infrastructure in the UK. Through strategy diversification, the Group has taken strides in recent years to adapt to this necessary regulatory change. However, we do anticipate there being a phased transition that will extend beyond the Government's target, and we are planning for this accordingly to ensure we have the necessary capabilities to continue to win, adopt and maintain gas networks. This approach is supported by the recent Future Homes Standard consultation which envisages a transition period once the legislation is introduced. The Government has withdrawn support for the two village trials of hydrogen as a source of domestic heating, which were designed to test its reliability, safety and ease of use. Despite this, there will be no formal decision on the use of hydrogen for home heating until 2026. Our gas networks are built using modern materials that can be repurposed to transport hydrogen gas, ensuring flexibility of use should traditional gas be phased out in the future.

The government had given its support to proposals to blend up to 20% hydrogen into the gas grid and approval is expected pending finalised safety case assessment.

### Directors' duties

The Directors of the Group, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so have regard (amongst other matters) to:

# ESPUG Finance Limited

## Strategic report (*continued*) for the year ended 31 December 2023

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### Directors' duties (*continued*)

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company, maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the company.'

As part of their induction, a Director is briefed on their duties and they can access professional advice on these. It is important to recognise that the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to employees of the Group.

### Risk Management

Consideration of risk is an integral part of how the Company operates on a daily basis and is part of any transactional appraisal. The Board also formally revisits the level of oversight and the monitoring of risks is reviewed by the Board on a regular basis.

### Our People

As a relatively small Group with just over 125 employees operating in one location, we recognise that our employees are fundamental to the success of the business and every single person's contribution counts. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

### Business Relationships

Developing strong relationships with stakeholders is fundamental to the Group's strategy. ESP Utilities Group Limited (ESPUG) Directors have regular contact with our customers to ensure we continue to understand their needs and can act as a partner to deliver growth. Engagement with the Regulator and Government Departments is a key priority which ESPUG undertakes bilaterally and as part of the Independent Networks Trade Association (INA), which ESPUG also Chairs. Liaison with our key suppliers is through attendance at industry forums and working groups where modifications to sector codes are developed.

### Community and Environment

The Directors are aware of the impact of the Group's operations on the community and environment. The Group is an active participant in the GRESB ESG benchmarking process and is committed to improving its compliance score.

### Shareholders

As a Board of Directors, our intention is to behave responsibly towards our shareholders, with whom we work closely to deliver growth and add value, as well as our Lenders who support the Group by providing the funding for growth. Key decisions are made in conjunction with shareholders, whose interests are represented by their three Board appointees.

# ESPUG Finance Limited

## Strategic report (continued) for the year ended 31 December 2023

### Key decisions made in the year

Decision	Effect
<b>Decision to improve staff benefits</b> During 2023 the Directors took the decision to offer staff enhanced maternity and paternity benefits and introduce support for staff undergoing IVF. These policies were formally implemented in early 2024.	
Shareholders	Improving benefits has improved the marketability of the Group as an employer, and improves the retention of trained staff in a continued challenging recruitment market.
Employees	Enhanced support for employees at a point when it is really needed will improve staff wellbeing and loyalty.

Decision	Effect
<b>Decision to focus on improving sustainability and stakeholder engagement within the Group</b> During 2023 the Board recognised the growing need to embed sustainability and stakeholder engagement within the operation of the business. This is being done through a continued focus on how the Group operates to identify and implement improvements, both through the decision to obtain ISO14604-1 in early 2024 and to work more closely with Community partners.	
Shareholders	Strong ESG credentials are needed for the Group to meet the investment criteria for both our shareholders and investors.
Stakeholders	Donations of both time and money to local charities enables them to offer more support to the local community. Embedding sustainable practices within the Group make us a good corporate citizen.
Employees	Charity fundraising and staff volunteering days allow employees to give back to the community, whilst at the same time improving team spirit.

Decision	Effect
<b>Decision to develop and implement the Direct to Developer customer strategy</b> The Group is engaging directly with Housing Developers at an early stage in a new development to provide enhanced technical support and solutions across all our utilities, giving the Developer more flexibility during each construction phase on large sites.	
Shareholders	Add value to the business by increasing new connections with secure long term regulated revenues.
Employees	Increased profitability provides secure employment prospects.
Customers	Improves our ability to provide a business partnering service to support Developers.
Suppliers	Strong link with developers gives our infrastructure partners access to a wider market.

# ESPUG Finance Limited

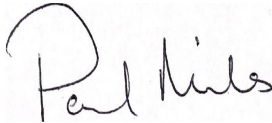
Strategic report (*continued*)  
for the year ended 31 December 2023

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## Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future and have prepared the financial statements on a going concern basis as set out in note 1.

## For and on behalf of the Board



Paul Miles  
**Director**  
26 April 2024

# ESPUG Finance Limited

## Directors' report for the year ended 31 December 2023

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The review of business and principal risks and uncertainties has been included within the Strategic report on page 1.

There are no post balance sheet events to report.

### Dividends

Dividends of £22,000,000 were received during the year (2022: £7,500,000). Dividends of £28,850,000 were declared and paid during the year (2022: £14,750,000). All dividends were paid within the year.

### Directors

The Directors of the Company throughout the year were:

Anna Dellis  
Simon Lees  
Paul Miles  
Adam Miller  
Stephen Morris  
Kevin O'Connor  
Victoria Spiers  
Bernardo Sottomayor  
Yaadvinder Virdee  
Peter Whittaker (appointed 21 February 2023)  
Simon Loh (appointed 18 March 2024)

### Directors' duties

Information on directors' duties has been included in the strategic report on pages 2 & 3.

### Financial instruments

#### *Liquidity risk and cash flow risk*

On 6 October 2017 the company entered into new loan note agreements to refinance the Group's' external debt borrowings. The facilities consist of lenders providing up to £554m of private loan placements, working capital, capital expenditure and liquidity facilities. In October 2021 the capital expenditure, working capital and liquidity facilities were extended for a further 5 years. These loans have an investment grade credit rating of Baa2 from Moody's Investor Services. Details of the private placement notes can be found in note 11 on page 21,

#### *Credit risk*

Credit risk arises principally from the Company's trade and other receivables. Management review all debtors for impairment and are comfortable that all un-provided debts are fully recoverable.

### Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 234 of the Act) were in force during the year ended 31 December 2023 and remain in force, in relation to certain losses and liabilities that the directors may incur to third parties in the course of acting as directors or employees of the Company. Neither the Company's indemnity nor its insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently. This indemnity exists for all companies within the Group.

### Energy and carbon disclosures

All entities within the Group, including ESPUG Finance Limited, are exempt from reporting on energy and carbon as no individual entity has consumption which exceeds the 40,000kWh reporting threshold.

# ESPUG Finance Limited

## Directors' report for the year ended 31 December 2023

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### **Likely future developments in the business of the Company**

The Directors consider that having secured long term funding for the Group, as shown in note 11, there will be no material changes to the business of the Company going forward.

### **Auditor**

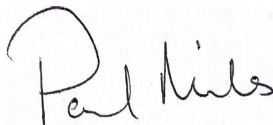
A resolution to reappoint Deloitte LLP will be proposed at the next Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

### **For and on behalf of the Board**



Paul Miles  
**Director**

26 April 2024

# ESPUG Finance Limited

## Directors' responsibilities statement for the year ended 31 December 2023

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The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# ESPUG Finance Limited

## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE LIMITED

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of ESPUG Finance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# ESPUG Finance Limited

## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE LIMITED (CONT)

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Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

# ESPUG Finance Limited

## INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE LIMITED (CONT)

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In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC, Ofgem and Ofwat.

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

- **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Lindsey Mehrer FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
26 April 2024

# ESPUG Finance Limited

## Statement of comprehensive income for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
<b>Turnover</b>		-	-
Cost of sales		-	-
		<hr/>	<hr/>
<b>Gross profit</b>		-	-
Administrative expenses		(69)	(50)
		<hr/>	<hr/>
<b>Operating loss</b>	3	(69)	(50)
Interest payable and similar charges	4	(7,785)	(12,003)
Other interest receivable and similar income	5	22,164	18,453
Dividends from share in group undertakings		22,000	7,500
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		36,310	13,900
Taxation on profit on ordinary activities	7	-	(50)
		<hr/>	<hr/>
<b>Profit for the financial year and total comprehensive income for the year</b>		36,310	13,850
		<hr/>	<hr/>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations. There were no items of other comprehensive income in the current and prior year.

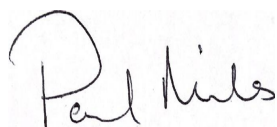
The notes on pages 15 to 21 form part of these financial statements.

# ESPUG Finance Limited

## Balance sheet at 31 December 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
<b>Fixed assets</b>					
Investments	8		620,177		620,153
			<u>620,177</u>		<u>620,153</u>
<b>Current assets</b>					
Debtors	9	300,139		253,135	
Cash at bank and in hand		31,062		16,362	
		<u>331,201</u>		<u>269,497</u>	
<b>Creditors:</b> amounts falling due within one year	10	(4,039)		(2,175)	
<b>Net current assets</b>			<u>327,162</u>		<u>267,322</u>
<b>Total assets less current liabilities</b>			<u>947,339</u>		<u>887,475</u>
<b>Creditors:</b> amounts falling due after more than one year	11		(425,536)		(373,132)
<b>Net assets</b>			<u><u>521,803</u></u>		<u><u>514,343</u></u>
<b>Capital and reserves</b>					
Called up share capital	12		141,705		141,705
Share premium account			369,999		369,999
Profit and loss account			10,099		2,639
			<u>521,803</u>		<u>514,343</u>
Equity shareholder funds			<u><u>521,803</u></u>		<u><u>514,343</u></u>

The financial statements were approved by the Board of Directors and authorised for issue on 26 April 2024 and were signed on its behalf by:



Paul Miles  
Director

The notes on pages 15 to 21 form part of these financial statements.

# ESPUG Finance Limited

## Statement of changes in equity for the year ended 31 December 2023

	Share capital 2023 £'000	Share Premium 2023 £'000	Profit and loss account 2023 £'000	Total equity 2023 £'000	Share capital 2022 £'000	Share Premium 2022 £'000	Profit and loss account 2022 £'000	Total equity 2022 £'000
1 January	141,705	369,999	2,639	514,343	141,705	369,999	3,539	515,243
Comprehensive income for the year								
Profit for the year	-	-	36,310	36,310	-	-	13,850	13,850
Total comprehensive income for the year / period	-	-	36,310	36,310	-	-	13,850	13,850
Contributions by and distributions to owners	-	-	-	-	-	-	-	-
Dividends paid	-	-	(28,850)	(28,850)	-	-	(14,750)	(14,750)
Total contributions by and distributions to owners	-	-	(28,850)	(28,850)	-	-	(14,750)	(14,750)
31 December	141,705	369,999	10,099	521,803	141,705	369,999	2,639	514,343

The notes on pages 15 to 21 form part of these financial statements.

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023

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### 1 Accounting policies

ESPUG Finance Limited is a private company, limited by shares, incorporated in England & Wales under the Companies Act. The registered office is Bluebird House, Mole Business Park, Leatherhead, KT22 7BA.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

#### ***Basis of preparation***

##### *Disclosure exemptions*

In preparing the financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the Company as this information is included in the consolidated accounts of ESP Utilities Group Limited (company number 02612105), which can be obtained from Companies House; and
- Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole.
- The requirements in Section 33 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included within E.S. Pipelines Limited (company number 03822878) as a whole.

#### ***Going concern***

The financial statements have been prepared on a going concern basis.

The Directors have considered and reviewed projections and cash flow forecasts that cover the period to fifteen months from the date of approval of these financial statements. In addition, stress cash flows have been prepared at Zoom Holding Limited level to assess any impact on the business from higher interest rates and current cost of living pressures. The Directors do not believe there will be any material financial or operational impact from these in the future.

Based on this, the Group and Company will have adequate resources to continue in operational existence for the foreseeable future. On this basis the Directors believe it is appropriate to present the accounts on a going concern basis.

On 5th October 2017 the Group refinanced its external debt borrowings. The Group's facilities consist of a banking syndicate of five banks providing £434m of private loan placements, £5m working capital, £100m capital expenditure and £15m liquidity facilities. In October 2021 the working capital, capital expenditure and liquidity facilities were renewed for a further 5 years. The loan notes have maturity dates of ten, fifteen and twenty years at a fixed rate of interest. These loans have an investment grade credit rating of Baa2 from Moody's Investor Services. Details of the private placement notes can be found in note 11 on page 21,

The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (*continued*)

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### 1 Accounting policies (*continued*)

The following principal accounting policies have been applied:

#### ***Consolidated financial statements***

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statement of a parent undertaking. These financial statements therefore present information about the Company as an individual undertaking and not as a Group.

#### ***Investments***

Investments are stated at cost less amounts written off where the Directors believe that there is a permanent diminution of value.

#### ***Impairment of cost of investment***

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit ("CGU") to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

#### ***Finance costs***

Finance costs are charged to the statement of comprehensive income over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs that are initially recognised as a reduction in the proceeds of the associated capital instrument and movements in the fair value of non-basic debt instruments.

#### ***Current and deferred taxation***

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (continued)

### 1 Accounting policies (continued)

#### Financial Assets

Financial assets, other than investments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of transaction costs. Financial liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments which comply with all of the condition of paragraph 11.9 of FRS 102 are classified as 'basic'. For debt instruments that do not meet the conditions of FRS 102.11.9, it is considered whether the debt instrument is consistent with the principle in paragraph 11.9A of FRS 102 in order to determine whether it can be classified as basic. Instruments classified as 'basic' financial instruments are subsequently measured at amortised cost using the effective interest method. Other debt instruments not meeting conditions of being 'basic' financial instruments are measured at fair value through profit or loss.

#### Reserves

The Company's reserves are as follows:

- Called up share capital represents the nominal value of shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue cost.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.. The profit and loss account is wholly distributable.

#### Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders.

### 2 Judgements in applying accounting policies and key sources of estimation uncertainty

There are no areas representing critical judgements made by management and no key sources of estimation uncertainty in the company's financial statements.

### 3 Operating loss

	2023 £'000	2022 £'000
This is arrived at after charging		
Auditor's remuneration	8	8

All auditor's remuneration relates to the audit of the financial statements, Consistent with the previous year, no non-audit services were provided by the auditor.

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (*continued*)

### 4 Interest payable and similar charges

	2023 £'000	2022 £'000
Interest on loan notes	14,786	12,003
Fair value (gains)/losses on financial instruments	(7,001)	-
	<u>7,785</u>	<u>12,003</u>

### 5 Other interest receivable and similar income

	2023 £'000	2022 £'000
Bank interest received	674	-
Interest receivable from Group companies	21,466	18,429
Preference share interest received	24	24
	<u>22,164</u>	<u>18,453</u>

### 6 Remuneration of Directors

The Directors, the only employees of the Company, received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2023 (2022 £nil). The directors who served during the year were employed by Zoom Holding Limited and other group companies, and were remunerated through these companies.

### 7 Taxation on profit on ordinary activities

	2023 £'000	2023 £'000	2022 £'000	2022 £'000
<i>UK corporation tax</i>				
Current tax on profits of the year		-		-
Adjustment in respect of previous periods		-		50
Total current tax		<u>-</u>		<u>50</u>
<i>Deferred tax</i>				
Deferred tax current period	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total tax charge		<u>-</u>		<u>50</u>

Legislation to increase the UK standard rate of corporation tax from 19% to 25% from 1 April 2023 was enacted in the period to 31 December 2021. Consequently, the weighted average corporation tax rate was 23.5% for 2023. UK deferred tax balances as at 31 December 2023, have been calculated at 25% (2022: 25%).

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (continued)

### 7 Taxation on profit on ordinary activities (continued)

#### Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2022: lower) than the standard rate of corporation tax in the year of 25% (2022: 19%). The differences are explained below.

	2023 £'000	2022 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	36,310	13,900
	<hr/>	<hr/>
Current tax at 23.5% (2022: 19%)	8,539	2,641
<i>Effects of:</i>		
Exempt group income	(5,180)	(1,429)
Expenses not deductible for tax	-	-
Fair value (gains)/losses on financial instruments	(1,646)	-
Group relief claimed for nil consideration	(1,713)	(1,212)
Payment for group relief claimed	-	50
	<hr/>	<hr/>
Total current tax charge	-	50
	<hr/>	<hr/>

### 8 Fixed asset investments

	2023 £'000	2022 £'000
Cost as at 1 January and 31 December	620,177	620,153
	<hr/>	<hr/>

Details of the Company's fixed asset investment in subsidiaries are as follows:

<i>Subsidiary</i>	Country of incorporation	Nature of business	Class and percentage of shares held
ESP Electricity Limited *	England & Wales	Independent distribution network operator	Ordinary shares 100%
E.S. Pipelines Limited *	England & Wales	Gas transport	Ordinary shares 100% Preference shares 100%
ESP Pipelines Limited	England & Wales	Gas transport	Ordinary shares 100%
ESP Networks Limited	England & Wales	Gas transport	Ordinary shares 100%
ESP Connections Limited	England & Wales	Gas transport	Ordinary shares 100%
Gas Newco 1 Limited**	England & Wales	Gas transport	Ordinary shares 100%
ESP Water Limited*	England & Wales	Water company	Ordinary shares 100%
ESP Water Retail Limited***	England & Wales	Water company	Ordinary shares 100%

The registered address for all investments listed above is Bluebird House, Mole Business Park, Leatherhead, Surrey, KT22 7BA.

Directly owned \*

Non trading\*\*

Directly owned and non trading\*\*\*

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (*continued*)

### 9 Debtors

	2023 £'000	2022 £'000
Amounts owed by Group undertakings	300,016	253,135
Other debtors	54	-
Corporation tax	69	-
	<u>300,139</u>	<u>253,135</u>

All debtors are due within one year.

The amounts owed by group undertakings relate to intercompany balances which do not bear interest and are repayable on demand by the Company.

### 10 Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	287	-
Private placement note interest	3,739	2,112
Accruals and deferred income	13	13
Corporation tax	-	50
	<u>4,039</u>	<u>2,175</u>

The amounts owed to group undertakings relate to intercompany balances which do not bear interest and are repayable on demand by the Company.

### 11 Creditors: amounts falling due after more than one year

	2023 £'000	2022 £'000
Private placement notes issued	425,536	313,132
Capex loan	-	60,000
	<u>425,536</u>	<u>373,132</u>

# ESPUG Finance Limited

## Notes forming part of the financial statements for the year ended 31 December 2023 (*continued*)

### 11 Creditors: amounts falling due after more than one year (*continued*)

In October 2023 two loan notes were issued totalling £120m. The loan notes are secured by an All Assets charge over the assets of the Group, and are structured as follows: -

£54m at 2.69% Senior Secured Tranche A note due 6th October 2027  
£85m at 3.05% Senior Secured Tranche B note due 6th October 2032  
£60m at 6.67% Senior Secured Tranche A note due 19th October 2033  
£30m at 2.116% Senior Secured note due 13th February 2035  
£30m at 2.53% Senior Secured note due 30th June 2036  
£85m at 3.35% Senior Secured Tranche C note due 6th October 2037  
£30m at 2.736% Senior Secured note due 13th May 2041  
£60m at 6.91% Senior Secured Tranche note due 19th October 2043

£20m was drawn down against the £100m capital expenditure facility during 2023. The entire 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%.

### 12 Share capital

	2023 £'000	2022 £'000
<i>Allotted, called up and fully paid</i>		
141,705,534 Ordinary shares of £1 each	141,705	141,705

### 13 Immediate and ultimate holding company and parent undertaking of larger group

The Company's immediate holding company is ESP Utilities Group Limited, a Company registered in England. The Company's ultimate holding company is Zoom Holding Limited, a Company registered in England and Wales.

The Company is ultimately controlled by 3i MIA LP, an English limited partnership, which is managed by 3i Investments plc. 3i Investments plc is wholly owned by 3i Group plc. The general partner of 3i MIA LP is 3i Managed Infrastructure GP (2017) LLP.

The largest group in which the results of the Company are consolidated is that headed by Zoom Holding Limited. The smallest group in which the results of the Company are consolidated is that headed by ESP Utilities Group Limited. The address of all Group companies is 1<sup>st</sup> Floor, Bluebird House, Mole Business Park, Leatherhead, KT22 7BA. Copies of these consolidated financial statements are available from Companies House.