UTILITIES GROUP

ZOOM HOLDING LIMITED

2023

ANNUAL REPORT & ACCOUNTS

COMPANY NUMBER: 05777758

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01

STRATEGIC REPORT

GROUP SNAPSHOT

Turnover

£123.3 m

£109.0m in 2022

Operating profit

£36.3 m

£28.2m in 2022

Connections

1,005,000

2022: 949,000

EV Charging Capacity[1]

136.2 mVa

2022: 55.5mVa

272K

Connection orderbook

2022: 272K

EV Charging Capacity in orderbook[2]

436.7 mVa

2022: 284.2mVa

NO

RIDDOR incidents

1 in 2022

125

Employees

2022: 122

1. 136.2mVa of EV charging capacity is equivalent to 238.7 million EV miles driven per year (2022: 55.2mVa is equivalent to 97.2 million EV miles). 2. 436.7mVa of EV charging capacity is equivalent to 765.0 million EV miles driven per year (2022: 284.2mVa is equivalent to 497.9 million EV miles)

BUSINESS MODEL AND STRATEGY

Under the ESP brand, Zoom Holding Limited and it's subsidiaries (the 'Group') is the UK's second largest owner and operator of independent residential, industrial and commercial multi-utility energy networks.

The Group does not build new networks, instead purchases completed networks and connections from accredited constructors. The regulated entities owning and operating the assets are known as:

Electricity, Independent Distribution Network Operator (iDNO)

Gas, Independent Gas Transporter (IGT)

Water, New Appointments and Variations (NAV)

As the network owner and operator of the 'last mile' of infrastructure to the end consumer the Group is responsible for maintaining the network and repairing any faults that cause interruptions to supply as quickly and safely as possible. Revenues are generated from Utility suppliers who pay a monthly rental per connection for use of this 'last mile' of infrastructure. Revenues are regulated by Ofgem (gas and electricity) and Ofwat (water).

ESP revenue generated/ provided by ESP

Electricity

ESP charge the Supplier for the Consumers share of the 'all the way' distribution charge for use of it's network and refunds the upstream share of the revenue back to the Distribution Network Operator via the DUoS mechanism.

Generation
v
Transmission
v
Distribution
Last Mile
> Supplier
v
Consumer

Gas

ESP charges the Supplier/ Shipper a rental for the use of it's networks, pipes and meters to transport the gas to consumers.

Generation
v
Transmission
v
Distribution
Meters
Last Mile
> Supplier/ Shipper
v
Consumer

Water

ESP charges the consumer directly for the supplied water, including meter rental, and pays wholesale water charges back to the Incumbent Water Company for the provision of clean water and waste water services.

Origination
v
Distribution
Last Mile
Meters
> Consumer
Last Mile Waste

BUSINESS MODEL AND STRATEGY

(CONTINUED)

We operate a business model focused predominantly on regulated revenue streams generated from long life assets, highlighted by; continued growth in our residential connections, an increasing portfolio of Industrial and Commercial connections, and a strong orderbook being delivered.

We have a proven entrepreneurial history of proactively adapting to market conditions to strengthen the resilience of the business, achieved through strategy diversification. To strengthen our Residential offering we have developed our Direct to Developer proposition which sits alongside our successful Industrial and Commercial proposition, specialising in the delivery of Electric Vehicle (EV) opportunities. Our business model can be summarised through the Group's vision, supporting our Mission which is achieved through our Delivery.

To support our Vision and Mission, we have developed a set of Values and Behaviours that drive what we do and how we do it. These are:

BE EXCELLENT

BE TRANSPARENT

BE AMBITIOUS

BE RESPECTFUL

BE COLLABORATIVE

These are discussed in further detail in the Stakeholder engagement section of this report on page 26.

VISION

Be the adopter of choice for gas, electricity and water networks

MISSION

Our purpose is to adopt and maintain safe, efficient and reliable networks while delivering strong and reliable results for our investors, being consumer and customer focused through accountable and ethical working practices.

DELIVERY

- Developing and supporting our people
- Understanding, influencing and adapting to our markets
- Adhering to and influencing our regulatory environment
- Adopting best in class systems and processes
- Providing excellent levels of service and reliability for our consumers and customers

CHAIRMAN'S STATEMENT

I am pleased to introduce our 2023 annual report. 2023 was a celebratory year for the Group as we reached 1 million connections, which includes our first live water connections. It is a tremendous achievement, especially given the current challenging state of the new housing market and I would like to take this opportunity to thank our employees, customers, partners, consumers, and service providers, who have supported us to pass this milestone for the Group.

In another challenging year where the market continues to be impacted by a number of macro events including; difficult economic conditions, high interest rates and an ongoing slowdown in the new housing market, the Group has continued to show its strength and resilience by maintaining market share in the residential sector and growing its Industrial and Commercial (I&C) business.

The Board has made proactive decisions in response to these challenges through the Direct to Developer strategy for the residential housing market and continuing to invest in the growth in our Industrial and Commercial proposition. Fully supported by our team members, these strategies have been executed and place the Group in a strong position for further future growth during 2024 and beyond.

The future of gas

The UK devolved Governments continue to target net zero emissions, permitting no new residential gas connections from 2024 in Scotland and 2025 in England and Wales. This is a complex policy area which was subject to consultation in late 2023, with legislation to implement these changes not yet developed. The Group continues to seek clarity from Government on the precise timing of the ban on new gas connections. Further details are provided in the market and regulatory trends section of this report. This represents a key challenge to the Group, which is also addressed in the Chief Executive's Review.

Board structure and governance

Our strong corporate governance process is overseen by the Board, which includes three shareholder Directors, two Executive Directors and an independent Chairman. We have established committees that oversee audit and risk, and remuneration, of which further details can be found in the Corporate Governance section of this report.

Investing in the future

We recognise that our strength as a Group lies in our people, and the Board places the ongoing training and development of its employees as key to our success. The Step-Up training programme has been running for several years now, supporting high potential employees with career progression and development. We have now successfully graduated three cohorts of trainees through the programme, many of whom have progressed into management positions within the business. 2024 sees the start of the fourth cohort of the programme, and we are pleased to continue to support their growth. We also offer support to all employees to help with study for professional qualifications, and currently have over 10% of staff under formal study programs.

During 2023 we introduced Managers Rewards, based on the Group's Values and Behaviours. This allows managers to recognise and reward outstanding individual performance from anywhere within the business, culminating in Employee of the Year awards. Our employees have engaged positively with these and competition is already on for the 2024 awards.

The Board continues to recognise the cost of living pressure on our team members, and we have maintained annual salary increases in line with wage inflation to support our employees.

The Group is committed to moving to a low carbon future and continues to strive towards operating in an environmentally positive way. We are investing time and resources to make sustainability part of our way of doing

business and have developed a clear sustainability strategy which sets out the priority areas where we believe we can have most positive effect. We are committed to achieving independent verification of our greenhouse gas reporting through the ISO 14064 standard. We continue to work with operators of electric vehicle chargers that will help establish the UK's charging infrastructure, reducing reliance on non-renewable fossil fuels. We also recognise our responsibility to the communities we work in and have introduced paid volunteering days for staff to support our chosen charity Queen Elizabeth Foundation (QEF). QEF is headquartered near our Leatherhead office and provides support for children and adults with learning disabilities and acquired brain injuries. During the year we have also provided additional support for Guide Dogs for the Blind, as well as fundraising for 'Movember'.

Outlook

The outlook for the Group is positive, despite the current weakness in the UK economy and housing market. The Group has a sound business model based on regulated revenue streams, and a strong forward orderbook for connections. The success of the I&C and water offerings have proved the Groups ability to adapt to a changing utilities infrastructure market. I therefore remain confident that through the positive, accountable, and proactive nature of its employees, ESP will continue to adapt to market change and execute on our strategy to deliver sustained growth to achieve the next million connections.

NICK HORLER, CHAIRMAN

MARKET AND REGULATORY TRENDS

Market trends

Residential new build market and demand for assets

Demand for residential new build homes slowed during 2022 and continued through 2023 due to the war in Ukraine, inflation, interest rate rises, and recession. This has resulted in fewer opportunities in gas and electricity new housing. The water proposition has opened up a new market to the Group, with the resultant multi-utility offering making ESP increasingly competitive and able to take advantage of new opportunities in the coming period.

Further investments in customer service, including the customer portal, have served to cement our position as the adopter of choice for a large part of the market. Technical support, ease of working and guaranteed payment continue to be key features which set our proposition apart.

Demand for industrial and commercial connections

Demand for new warehouse space, together with new data centre capacity, continues to grow. The Group is well placed to take advantage of the market growth with established credentials and a strong proposition. Recent data centre contract awards, including one of the largest data centres to be connected in the UK, together with awards for some of the leading distribution centre operators, mean that the industrial and commercial connections sector continues to be a rich seam for the Group.

Demand for EV charging infrastructure

The rise of EV is driving a high volume of growth for charging infrastructure as both traditional fossil fuel operators and new charge point operators compete to establish charging brands and footprint across the UK.

The EV proposition has been successful in attracting and retaining a wide range of operators who intend to connect their existing estates and target new charging sites over the coming five to ten years. Early investment into team structure, processes, systems and capability is paying dividends, with sustained market penetration.

Regulatory trends

The regulatory landscape

The Group operates its businesses under licences granted by the relevant sectoral regulators in Great Britain: the Office of Gas and Electricity Markets (Ofgem) for its gas and electricity networks, and in addition the Group has obligations to the Health and Safety Executive for management of safety issues in network operations. We operate our water business under licence from the Water Services Regulation Authority (Ofwat), with obligations to the Drinking Water Inspectorate (DWI) for water quality issues, Market Operator Services Limited (MOSL – the market operator for non-household water), the Environment Agency (EA) who are responsible for the protection of the environment, and the Consumer Council for Water (CCW). The Group actively manages its compliance with all licence requirements and regulatory obligations via a 'three lines of defense model' including reporting to the Executive Team and Board. The Group takes a proactive approach with its regulators and has regular dialogue on matters pertaining to its licences as well as broader issues impacting the sector, both bilaterally and via its trade association, the Independent Networks Association (INA).

Regulation is of crucial importance to the Group as it dictates how it carries out its business in terms of necessary actions which require compliance and processes which need to be followed when undertaking certain activities. Furthermore, the Group's revenue is determined in accordance with methodologies subject to regulation. Therefore, maintaining a strong understanding of regulatory change is key to ensuring that the business is well placed to react to regulatory change proposals which will impact future revenue expectations.

2023 Regulatory initiatives

The cost-of-living pressures facing consumers continued to provide a key focus for the sector during 2023. The importance of understanding the needs of customers, especially those in vulnerable circumstances, is playing an ever increasing role in how Utility Networks as well as Suppliers are regulated. In response to this we have led the work within the Independent Networks Association (The INA), the sector trade body, to develop a Customer Charter setting the standard for excellence in customer service from all independent network operators.

MARKET AND REGULATORY TRENDS

(CONTINUED)

Regulatory change

The Energy Act 2023

2023 saw the introduction of the Energy Act which was the first significant legislation on energy for over a decade. As well as supporting improvements in energy efficiency, the growth of EV charging infrastructure and the expansion of Heat Networks, the Act placed a specific duty on Ofgem to support the Government in reaching its legally binding Net Zero target. Ofgem and Ofwat have also been given a new "growth duty" to promote economic growth and encourage competition to deliver best service to consumers. These new obligations, coupled with the reform of market regulation envisioned by the Act will support the development of a regulatory framework that is fit for the future energy system.

The key regulatory changes currently facing the Group are:

Future of gas

The UK Government has announced its intention that in England and Wales no new residential gas connections should be permitted from 2025 onwards, in order to meet its legally binding net zero targets. This legislation will be introduced through the Future Homes Standard (FHS) which is currently under consultation and is likely to determine that new build homes will require low carbon heating solutions eg: heat pumps. The timetable to achieve the 2025 implementation date is very challenging, with a response and final decisions on the permissibility of new gas connections needing to be agreed and given parliamentary time in 2024, when a general election is also due to be held. The consultation proposes a transitional period, of either six or twelve months, from the date of laying the regulations to them coming into force, followed by a further twelve months transition period, delaying the earliest feasible implementation to Q1 2026.

The Scottish Government has confirmed that any property with a building warrant issued from 2024 must use zero emissions heating, ensuring no new gas connections are permitted, once those with pre-existing warrants are completed.

The UK Government has confirmed that it will support the use of a 20% hydrogen blend into the natural gas network, once all aspects of the associated safety case have been proven. This is, however, only likely to serve as a solution for surplus hydrogen from producers, rather than as an alternative home heating solution.

There is increasing coverage of the challenges facing some difficult to adapt properties and it is unlikely that one low carbon solution will be suitable for all households. The Government therefore continues to support a mixture of options including heat pumps, electric storage heating and heat networks, which will come under the remit of Ofgem regulation.

The planned review of the Independent Distribution Network Operator (IDNO) regulatory framework.

Ofgem has included in its forward work programme a section for reviewing the regulatory framework for IDNOs as part of the wider objective to expand the electricity networks to connect new generation and low carbon technologies. This work will focus on the Extra High Voltage level and will consider ways in which the regulatory framework can be adjusted to simplify and accelerate connections at the higher voltage tier. It is a reflection on the success of ESP, and other IDNOs in the market, that developers are increasingly seeking to replicate the benefits of working with an IDNO on more traditional residential and low level I&C connections, at the higher voltage tiers.

The risks and impact to the business of these regulatory changes are considered in further detail in the Chief Executive's review on page 10 and Principal risks and mitigations within the Risk report on page 14.

CEO'S REVIEW

1 MILLION+

CONNECTIONS AND COUNTING

Echoing the sentiments of our Chairman, I would like to extend my thanks and appreciation to all employees of the Group for helping us achieve our first million connections in what was a memorable year for the Group. Our first water connections went live in the Spring followed by the one million connections mark across the Group being passed in the Autumn.

Despite another weak year for the housing market, the Group continued to perform well, seeing year on year growth in turnover, operating profit, and connection numbers. The orderbook for the Group remains strong, and a clear indicator of ongoing future business growth.

As a business we continue to evolve and grow, adapting our strategy to meet each challenge as it occurs. Despite recent high inflation, high interest rates and low growth in the wider economy this approach has enabled the Group to develop into the resilient business needed to deliver future growth.

Established and resilient business model

The new housing market remained challenging during 2023, slowing down even further as the effect of high interest rates was felt by households. Throughout the year the Group has continued to win new business, ensuring the order book remains strong, as connections are built out and become revenue generating. Our diversified portfolio, including a successful EV delivery team, gives additional resilience in an environment where residential growth is slower than prior year. As a regulated business we are protected from the negative effects of inflation as our revenues increase with inflation to match increased costs – this is considered further within the Market risk and mitigation report.

The Group's strategy is to drive growth through increasing connection numbers, and to achieve this, the Group delivers a customer focused culture within the business. We partner with our customers: the Utility Infrastructure Providers for gas (UIPs), Independent Connection Providers for electricity (ICPs) and Self Lay Providers for water (SLPs) that build the networks we adopt, to provide technical guidance and support, competitive and sustainable asset values, and excellent service. We continue to focus on customer service to offer our customers excellent and consistent support throughout the whole customer journey.

The financial strength of the business is underlined by our continued ability to raise further debt to support sustained growth. Our lenders have extended our loan facilities by £120m during the year to further support the growth in our business.

Adapting to market and regulatory change

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 has given its support to proposals to blend up to 20% hydrogen into the gas grid pending finalised safety case assessment.

During 2023 the Group launched a new Direct to Developer strategy which gives the Group a direct relationship with Housing Developers for the first time. By engaging with Developers at an early stage in each project the Group are able to provide technical support from the outset and assist both the Developer and Infrastructure Provider in delivering a successful project. There have been some early successes with this strategy and the outlook for further wins is positive.

Both ESP Water and the EV charging customers continue to show sustained growth. ESP Water has increased it's orderbook to over 55,000 by the end of 2023, and the EV orderbook charging capacity has increased by over 50% to 436.7mVa during 2023.

CEO'S REVIEW
(CONTINUED)

Sustained growth

The Group continues to grow its gas, electricity and water networks: gas connections increased by 34,491 (5.1%) during the year to 681,294, electricity increased by 20,996 (6.5%) to 323,088, and the first 223 water connections were made. Future network growth is driven through delivery of the Group's orderbook and through winning new connections. Our orderbook has increased again through 2023 predominantly due to water network wins, and ends the year at 272,127 combined gas, electricity and water connections. Further details of the Group's financial performance during 2023 and its position at year end are included in the Operational and financial performance section of this report.

Our Culture

The success of the Group depends upon our people. We aim to nurture a high performance culture, motivating staff to both achieve in their roles whilst supporting development with training through the Step Up program and professional qualifications. As a responsible employer we take our Environmental, Social and Governance (ESG) responsibilities seriously, working within the business to maximise sustainability and extending this into the wider local community by encouraging charity fundraising and volunteering.

SUSTAINABILITY AND ENVIRONMENTAL MATTERS

The Board recognise that in meeting our ambition to be the Number One Adopter of Choice for independent networks we must operate sustainably, both for people and the planet. We are focused on improving the impact the business has on its environment, albeit the Group's activities have minimal direct environmental impacts.

To support our approach to sustainability, we developed a sustainability strategy that aligns to our business goals whilst focussing on key areas where we can make a difference and which will bring lasting benefits to our customers, our employees and the environment.

The Group is a member of GRESB, the global ESG benchmarking process for real estate and infrastructure investments. We have improved our GRESB scoring year on year since we first entered the scheme and look to continue this trend in 2024.

This year the Group has designed its annual report in a format conducive to on-screen viewing ahead of physical printing, and we encourage readers to consider the impact on the environment when considering whether to print this report.

Gas connections
increased by
34,491

Electricity connections
increased by
20,996

Water connections
increased by
223

Outlook

2023 was another successful year for the Group, with strong growth and profitability. Our long-term aim of being the adopter of choice for gas, electricity and water networks remains unchanged and at the core of everything we do. We strive to provide a supportive environment for our employees to develop, to have productive relationships with our customers, and to deliver outstanding service to our consumers. I look forward to building on our successes to date in 2024.

KEVIN O'CONNOR,
CHIEF EXECUTIVE OFFICER

DIRECTORS DUTIES AND KEY DECISIONS

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 ("the Act") 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:
- 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.

When making business decisions, the Directors engage with the Group's stakeholders, aiming to align the impact of the decision to stakeholders and how we engage with them to understand their view is provided on page 26.

Key decisions made in the year

Decision	Effect
1. Decision to improve staff benefits	
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.

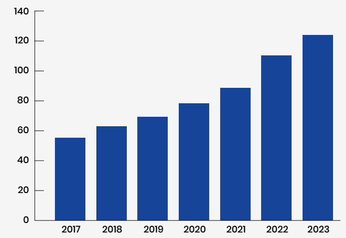
Decision	Effect
2. Decision to develop and implement the Direct to Developer customer strategy	
The Group is engaging directly with Housing Developers at an early stage in a new development to provide enhanced technical support and solutions across all our utilities, giving the Developer more flexibility 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.

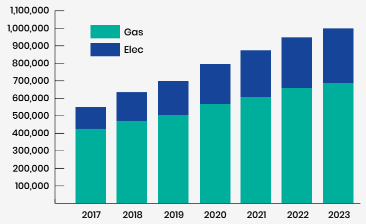
Decision	Effect
3. Decision to focus on improving sustainability and stakeholder engagement within the Group	
During 2023 the Board recognised the growing need to embed sustainability and stakeholder engagement within the operation of the business. This is being done through a continued focus on how the Group operates to identify and implement improvements both through the decision to obtain ISO14064-1 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	Improved marketability of the Group, allowing us to attract and retain team members sharing a clear goal and vision.

KEY PERFORMANCE INDICATORS

We use Key Performance Indicators to measure success of the Group:

Strategy & Objective	KPI & calculation	KPI	Commentary
Strong financial performance Operate a profitable business, with year-on-year turnover and operating profit growth	Turnover	**£123.3m** (2022: £109.0m)	Turnover growth has largely been driven by increased connection numbers across gas and electric networks, for both residential and I&C. The consistency of growth highlights the resilient business model of the Group.
	Operating profit	**£36.3m** (2022: £28.2m)	Turnover growth has been translated into increased operating profit. Prior year investment in our I&C and water teams has delivered increased operating profitability in 2023.
Sustained growth Grow the Group's share of network coverage through year-on-year connection growth	Connections – number of new gas, electricity and water connections live at year end	**1,004,605 connections** (2022: 948,895)	First water connections went live in 2023. New connections on were depressed compared to previous year due to the slow down in the wider new housing market.
	Orderbook – number of gas, electricity and water connections won, yet to be connected	**272,127 connections** (2022: 271,940)	Maintaining a strong connection orderbook, that will be realised over a number of future years, underlines the strength of the business.
Sustainability Operate the business in a sustainable manner whilst encouraging business growth	Electric vehicle mileage capability – electric vehicle energised and orderbook charging load at the end of the year	**Energised:** 136.2mVa (2022: 55.5mVa) **Orderbook:** 436.7mVa (2022: 284.2mVa)	Growth in our EV network highlights the Group's focus on electricity networks that support the UK's environmental focus, whilst also highlighting the continued growth during 2023 of our I&C proposition.





RISK REPORT

Risk Management

Consideration of risk is an integral part of how the Group operates on a daily basis. The Group maintains a risk register of key current risks impacting the business and an authority matrix that documents escalation and approval of risks. Both are monitored and reviewed by the Board and Executive Team on a regular basis.

Compliance with Health and Safety Requirements as well as our Regulatory Licence Obligations are managed through quarterly reporting to the Executive Committee and are reviewed twice annually by the Board.

All employees are informed and made aware of our risk management processes with many involved formally through day-to-day operations. Our employees are engaged on Health and Safety topics on a regular basis via communications coordinated through the Health and Safety Committee. The Health and Safety Committee review hazard and near miss reports from across the business, the outputs of which are shared with the Executive Committee each month.

The Group's risk methodology employs four steps to manage risk:

IDENTIFY

risks arising from day-to-day operations and business activities are managed at departmental level, with inclusion on the Group Risk Register reserved for the most significant strategic issues. Continuous monitoring of legislative, regulatory and market changes to identify new risks to the business is carried out as part of normal business activity.

ANALYSE

all risks are assessed against their likelihood of occurring and the impact to the business should they materialise. These figures are multiplied to give an overall risk score.

PRIORITISE

all risks are reviewed with the highest scoring risks receiving greatest effort in terms of mitigating actions.

TREAT

risks and the progress of their respective mitigating actions are reviewed monthly in the business, quarterly at the Executive Committee and twice yearly by the Board.

RISK REPORT
(CONTINUED)

Principal risks and mitigation

MITIGATION

Risk	Description	Mitigation	Change
Regulatory environment – future of gas	The UK Government's stated target is no new residential gas connections after 2025, leading to the uncertainty of future gas connections and reduced growth levels. The decarbonisation of home heating could lead, in the next few decades, to gas assets becoming stranded, with no funding mechanism to recover asset investment.	The Group has established a strong electricity I&C proposition and diversified into water network adoption. The Group's gas networks are made of modern materials and can be repurposed to transport hydrogen for gas blends up to 100% hydrogen. Any cessation of gas connections will result in increased electricity demand. The Group is engaged with stakeholders within the industry, including GDNs, housebuilders and trade associations, Ofgem and MPs.	=
Competitive environment	Our business strategy relies on the ability to increase our connections whilst keeping costs low. The markets in which we operate are competitive. During 2023 the risk has increased due to: • new entrants into the market • aggressive pricing from competitors • successful entry into the water market from competitors • the collapse or acquisition of a UIP, ICP or SLP reducing the addressable market Coupled with our own inaction, this could have a significant and adverse impact on future investment opportunities.	The Group continually focusses on providing competitive pricing combined with excellent levels of service to our customers and partners. We support our partners to develop market share in target regions. We also identify and develop new partners to reduce individual customer reliance. During 2023 the Group has successfully launched it's Direct to Developer strategy for the residential market which partners the existing strong I&C proposition to more fully cover the whole addressable market. We are an early investor into the water network adoption market and have invested in experienced personnel to grow this business.	+
Regulatory environment – price changes	A significant portion of the Group's current and future revenues are regulated by Ofgem and Ofwat. Changes in charging methodologies from future price control reviews, or from future fuel price changes, could lead to uncertainty around future revenues.	The Group takes a leading role in industry bodies to remain informed and ensure that the interests of the industry are represented effectively. Assumptions on future pricing changes are regularly monitored and factored into the financial modelling of the business.	=

Key = No change + Risk increased - Risk decreased

RISK REPORT
(CONTINUED)

MITIGATION

Risk	Description	Mitigation	Change
Cyber security threat	Financial loss, data disclosure or reputational damage could be caused by cyber-attacks or IT system flaws. The National Cyber Security Centre (NCSC) has warned operators of the UK's critical infrastructure of growing and persistent threats from state-backed and aligned actors. Cyber attacks have increased significantly since Russia's invasion of Ukraine.	Our documented plans include business continuity, cyber incident response and disaster recovery. We have a Security Operations Centre and undertake phishing awareness training supplemented by simulated attacks. We also maintain a certified Information Security Management System.	+
Macro-economic factors	Successful delivery of the growth strategy is reliant on the buoyancy of the UK new housing market, with a slow-down for an extended period likely to have a detrimental impact on wins and lower returns due to increased competition in a smaller market.	Whilst there may be a delay in growth plans, ultimately the UK has growing requirement for more new homes than are currently being built. Our growing I&C proposition reduces reliance on the residential market.	=
Inflation	Through macro-economic factors, the sustained high rates of inflation throughout 2022 and into 2023 have raised the operating cost base of the Group through higher personnel costs and higher operating costs.	Most of the Group's revenues are regulated with annual tariff increases linked to RPI. This mitigates the negative effect of inflation on the cost base. The Group has a robust budgeting process and going concern assessment that incorporates sensitivities in a range of variables, including operating costs.	=
Health and safety	The health and safety of our employees, subcontractors, suppliers and customers is of paramount importance to us. Major incidents on our networks including outages and faults could lead to harm to individuals, reputational damage, financial penalties, prosecution or change of regulatory status.	The Group has a comprehensive health and safety strategy, where safety is at the forefront of our culture, measuring safety performance and strong risk management procedures.	=

Key = No change + Risk increased - Risk decreased

RISK REPORT
(CONTINUED)

Going concern

The Group's financial statements have been prepared on a going concern basis, notwithstanding that for the year ended 31 December 2023 the Group made a small profit for the year but is loss making and had net liabilities of £210.6m (2022: £211.9m). Within net liabilities the Group's non-callable shareholder loans are £270.9m (2022: £278.2m). These are listed on the Channel Islands Stock Exchange and incur interest at 8% and 12%.

The Group is further financed by long-term bank loans, with £120m of new private placements issued in 2023. The Directors have concluded that the Group will be able to operate within its current facilities and comply with its covenants for the foreseeable future.

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, including stress testing of the forecasts. The Directors have considered the impact of macro-economic factors, including the challenging UK housebuilding market, increased cost of living and higher interest rates. Based on the lack of any significant detriment to the business from any of the aforementioned factors, 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 and on this basis the Directors believe it is appropriate to present the accounts on a going concern basis.

FINANCIAL RISK MANAGEMENT

Capital is managed so as to maximise the return to shareholders, while maintaining a strong capital base that ensures that the Group can operate effectively in the marketplace and sustain future development of the business. The Board is responsible for regularly monitoring capital requirements to ensure that the Group is maintaining sufficient capital to meet its future operational needs. Excluding shareholder debt, the Group has net debt of £371.1 million as at 31 December 2023 (£329.9 million 31 December 2022).

Credit Risk

Although the UK energy markets have stabilised compared to the turbulence of 2021/2022, the price to Consumers of energy remains high. Combined with ongoing cost of living pressures in the wider economy there is still a risk of the Group suffering bad debts through energy supplier failure due to high levels of consumer bad debt.

Controls

A significant portion of the Group's revenue is regulated, including customer payment terms. This minimises exposure to bad debt, allowing any default to be quickly identified and escalated for credit control.

Ofgem provide mechanisms for the recovery of both gas and electricity transportation bad debt in later years. The Group submit all claims to Ofgem ahead of deadlines.

Liquidity Risk

The Group has an ongoing requirement for external loans to fund growth.

Controls

Maintenance of an Investment grade credit rating, Baa2, with Moody's Investor Service, which enables the Group to raise funds at competitive rates. The Group ensures it meets all debt monitoring requirements, including covenant targets which are tracked and reported to Lenders.

Regular cash analysis is performed to understand the cash requirements of the Group and ensure it can access sufficient cash resources to meet its funding requirements and its liabilities as they fall due. Short and long term cash flow forecasts are regularly performed and reported to the board. The external debt facilities and their utilisation/headroom are reported to the board on a monthly basis.

OPERATIONAL AND FINANCIAL PERFORMANCE

Overview

Through a challenging market the Group has shown its resilience, achieving another year of strong growth in operating profit, the key performance indicator for the Group. Continued investment in network acquisitions has seen turnover increase by 13% from £109m in 2022 to £123.3m in 2023, and operating profit increase by 29% over the year, from £28.2m to £36.3m.

Installed connection numbers have increased from 2022 to 2023 by 5.9% from 948,895 to 1,004,605. Our connections orderbook of 272,127 connections (2022: 271,940 connections) further highlights the stability of our expected growth.

The slowdown in the new housing market negatively affected growth in residential connections for 2023 which were just over 55,000 for the year, down from 75,000 in 2022.

The Group has generated a profit in the 2023 financial year of £0.5m, a decrease from the £10.5m loss generated in 2022. The Group incurred annual interest charges of £29.7m in 2023 (£34.4m in 2022). The interest charge has reduced in the current year due to a fair value gain on financial instruments of £7m (2022 £nil). Interest is payable on both the shareholder loans and private placement loan notes which are used to fund the long-term growth of the business. Interest received on cash balances of £1m (2022: nil) partly offset the increased interest costs for the year. The Group continues to generate sufficient cash from operating activities to pay all its interest liabilities.

On 1st December 2023 the connections and assets of the subsidiary undertakings ESP Pipelines Limited, ESP Networks Limited and ESP Connections Limited were hived up to E.S. Pipelines Limited to achieve administrative savings going forward by consolidating into only one gas licence. There has been no change in the operation of the underlying assets, and the switch happened smoothly both internally and on all industry data platforms.

During 2023 the Group issued new Private Placements of £120m, using £80m of this to repay the Capex loan balance. Total debt at the end of the year was £696.4m. Excluding shareholder loans, external debt at year end was £425.5m. Our lenders continue to support the business, recognising our credit-worthiness with long-term loans at rates reflecting the stability of the business and long-term nature of our assets – further details are below.

Turnover and cost of sales

As identified above, our installed connections have grown in the year by 5.9%. We own and operate gas, electricity and now water networks, with the first water connections being made in early 2023.

In early 2022 Ofgem issued consent for both Independent Gas Transporters and Independent Distribution Network Operators to recover Last Resort Supply Payments (LRSP) for the Regulatory year April 2022 to March 2023. These charges have been accounted for differently within the gas and electricity businesses due to the mechanisms mandated for their collection.

For the gas companies the LRSP was billed separately and could be easily identified on invoicing. The Group is acting as an agent and as a consequence it has been presented net in the income statement.

For ESPE Electricity the LRSP levy was recovered through industry wide tariffing, increasing both gross revenues and DUoS cost of sale for the business. As it is not possible to separate out the individual charges on invoicing, the Group is acting as a principal and as such, the levy has been presented gross in the income statement for ESP Electricity Limited. It is estimated that the levy has accounted for £2.8m (2022: £6.8m) of this year's increase in turnover and DUoS cost of sales.

Our electricity network business continues to show strong growth again in 2023, despite lower than expected new housing connections. This has produced underlying turnover growth* excluding LRSP levy of 17% (2022: 20%). Total electricity turnover including the LRSP levy grew 22% to £66.8m (2022: £61.4m). Growth in our electricity business highlights the successful results of our strategy to focus on electricity networks given the uncertainty around the future of gas highlighted in the Market and regulatory trends report.

Turnover
£123.3M
increased by 13%, from £109M in 2022

Operating profit
£36.3M
increased by 29%, from £28.2M in 2022

Gas connections
5.3% increase

Our gas networks form the majority of existing connections, reflecting our background as a gas network adopter. During 2023 we have increased gas connections by 34,491, a 5.3% increase on 2022 connections which combined with RPI increases in tariffs has driven revenue growth of 18.9% to £56.6m (2022: £47.6m).

OPERATIONAL AND FINANCIAL PERFORMANCE

(CONTINUED)

Turnover and cost of sales (continued)

Our connections orderbook represents connections that we have won and contracted with developers, but that have not been energised or are in-supply by year end, typically due to multi-year rollout periods associated with property development. This highlights the future growth of the business, underlining the stability and resilience of our business plan. At 2023 year end our orderbook was for 272,127 connections, increased slightly from 271,940 at 2022 year end due to water wins. Our electricity I&C proposition remains strong, and the electricity I&C orderbook ends the year with a 6% increase in future connection numbers from 2022 to 2023.

The Group's cost of sales represents the direct costs of owning our networks. It includes the electricity DUoS charges we pay to DNOs for use of their networks, and water NAV charges we pay to upstream water companies for the supply of water and wastewater. These have increased by 7.3% to £61.4m (2022: £57.3m). £2.8m of this increase is due to the electricity LRSP levy charges being passed through, with the remainder due to a combination of the increase in connection numbers and inflation within the supply chain being passed on.

Operating costs

During 2023 the Group has continued to invest in increasing the depth of technical and professional staff within the business to support both the delivery of the orderbook, and the safe operation of our existing networks. This has seen our operating cost base increase, up 8.6% to £25.6m (2022: £23.5m).

Capital expenditure

2023 has seen the Group invest £50.3m in its gas and electricity networks, including meters. This is a 7.3% increase on its 2022 investment levels and includes £4.5m paid to Fulcrum Utility Services Limited for the purchase of 5,000 gas connections.

Depreciation and impairment

The depreciation charge during the year was £12.0m (2022: £11.0m), and during the year goodwill was amortised by £5.5m (2022: £5.5m). The Group's goodwill was generated through acquisition by the Group of subsidiary undertakings, where the consideration paid was greater than the fair value of assets and liabilities acquired. Goodwill is amortised straight-line over a 20-year estimate of useful life.

Connections

272,127

increased from 271,940

Tax

The Group's tax charge of £7.2m for 2023 (2022: £4.3m) includes a deferred tax charge in the year of £7.2m 2023 (2022: £4.0m). The increased overall tax charge from 2022 to 2023 is due to the deferred tax charge based on network additions in the year. The Group has generated a profit before tax in the current year of £7.6m (2022: £6.2m loss) which after adjustment gives rise to a zero tax charge for the current year, and a small £0.05m prior year recovery of tax charged for 2022 (2022: current tax charge £0.2m).

The Group's deferred tax position is predominantly driven by timing differences and differences between accumulated depreciation and capital allowances, with net deferred tax losses at 2023 year end of £0.3m (2022: £7.5m).

OPERATIONAL AND FINANCIAL PERFORMANCE
(CONTINUED)

Cashflows

During 2023 the Group generated £6.0m from its operating activities, which is a decrease from the £23.7m in 2022 due to the timing of £42.2m of interest paid to debt holders (2022: £25.1m).

Cash paid to acquire fixed assets was £52.2m (2022: £48.2m) which is funded by a net increase in capex loans and loan notes of £60.0m (2022: £30.0m).

At 2023 year end the Group had a positive cash balance of £58.2m, a £15.0m increase on the prior year balance of £43.2m.

Debt

The Group's debt is funded through external loan facilities and shareholder loans, further details of which are included in note 15 to the financial statements.

The Group continues to raise additional external loan facilities and shareholder loans that highlight the credit worthiness of our business – we are able to access investment grade rates on long-term facilities.

In October 2023 the Group issued two new private placements which total £120m on 10 and 20 year terms. The debt was raised amongst a group of major infrastructure finance providers, including NYL Investors LLC1 and funds managed by Blackstone Credit. £80m of these funds were used to repay the existing capex loan balance in full, leaving the Group with £100m headroom on the Capex facility for future asset purchases. At year end the total loan facilities net of financing costs were £696.4m, up from £651.4m as at December 2022. The Group's net debt* at 2023 year end has increased by £30m from £608.2m to £638.2m. At year end, the facilities had a weighted average repayment period of 11.9 years, with the first facility due for repayment in Q4 2026.

Under the external loan facilities, which comprise the Private loan notes, Capex, Liquidity and Working capital facility, the Group has interest coverage ratio and leverage ratio covenants of 1.25:1 and 9.5:1 respectively. It has operated within all covenants during the year.

The overall gearing ratio of the Group (net debt*/ equity) is 5.2:1 (2022: 4.9:1). The Group's net debt, excluding the shareholder loan, was £367.3m. Resulting in a gearing ratio of 3.2:1 (2022: 2.8:1).

Further information on the Group's capital structure is included in note 19 to the financial statements.

Investor capital

The Shareholder's investment in the Group is through share capital and shareholder loans that are listed on the Channel Island Stock Exchange, repayable 2036.

At 31 December 2023 the Group had outstanding shareholder loans totalling £270.9m (2022: £278.2m), which incur interest at 12% and 8%. During the year, the Group incurred interest on these shareholder loans of £21.9m (2022: £22.4m) and paid interest to the noteholders of £29.3m (2022: £14.3m).

PAUL MILES,
CHIEF FINANCIAL OFFICER

* Financial measures or metrics used in this report that are not defined by UK GAAP are alternative performance measures. Although not a formal debt covenant the Group uses the gearing ratio as a useful KPI for monitoring levels of debt. Net debt is calculated based on external borrowings net of cash and cash equivalents. These measures are not intended to be a substitute for, or superior to, UK GAAP measurements, and have been consistently applied within each year presented in these financial statements.

SUSTAINABILITY

The Board and management of ESP recognise that as part of our ongoing success and in meeting our ambition to be the Number One Adopter of Choice for independent networks we must operate sustainably, both for people and the planet.

Our success is built on our enduring and collaborative relationships with our customers, our people and our investors. We are committed to being an environmentally and socially responsible network owner and holding ourselves, and those we work with, to the highest standards of conduct and ethics.

In defining our approach to sustainability, we have focused on key areas where we can make a difference and which will bring lasting benefits to our customers, our employees and the environment.

- Providing last mile residential gas, electricity and water connections in the UK, providing house builder choice for a critical infrastructure service.
- Caring for priority residential customers to ensure vital services remain operational.
- Supporting EV charging companies with infrastructure rollout, enabling the electrification of road transport in the UK, contributing to significant emissions reductions.
- Providing a first-class environment for collaboration and personal development for our team.
- Employing rigorous governance processes to ensure we are acting in a responsible way which support long-term growth.

Our Sustainability Strategy is set out in three pillars:

Sustainable - a safe and innovative operator, investing in our future.

The health and safety of our team, our contractors, and the communities we serve is the highest priority for the Group. As a regulated business we are overseen by the Health and Safety Executive and have a strong culture of hazard reporting to help us identify ways to improve before any serious incidents occur.

Our construction partners develop modern and efficient networks which are built for the long term, and we undertake frequent audits during the construction phase to ensure that all procedures and safety standards are adhered to.

The Group is at the forefront of rolling out the infrastructure to support the electrification of transport in the UK, including bus garages, retail parking and forecourts. Our residential networks include an increasing number of Electric Vehicle charge points, reducing emissions and noise pollution for local communities. This aligns with our goal to remain the leading adopter of EV connections in the UK.

Our expanding electricity networks also support the take up of low carbon heating solutions and our gas networks are made of modern materials which are suitable for transporting blends of hydrogen gas up to 100%. This allows us to play our part in the transition away from the use of fossil fuels as set out in the COP28 Agreement.

We continually review opportunities in the market to support the electrification of heat and other low carbon/ net zero alternatives. We seek to deliver networks for the future and adopt sustainable drainage systems to help manage water usage.

We are committed to measuring and reducing our emissions, preparing and delivering in line with a Paris-aligned carbon emissions reduction plan. This will include achieving the globally recognised ISO14064-1 GHG certification.

The Group will review Science-Based Targets ("SBTs") under the Science-Based Target Initiative ("SBTi") and report on our progress annually.

As part of our ongoing focus on managing the risks and opportunities that climate change brings, we will incorporate climate risk and opportunity into our corporate risk assessments.

We will measure and report progress in our sustainability reporting and have set ourselves key short term targets as well as making longer term commitments.

SUSTAINABILITY

(CONTINUED)

Diverse – a diverse and inclusive employer, investing in our people.

We consider our staff to be one of our most important stakeholders and their engagement and contribution is key to developing and maintaining ESP's culture as a welcoming and desirable place to work.

We aim to be an excellent employer and offer a variety of learning programmes at all levels, from professional qualifications to training in Unconscious Bias. We deliver a management training program 'Step Up' with a hugely successful track record for participants, now in its fourth year.

We are committed to celebrating and sharing the diversity of our team through our cultural calendar and ensuring that team feedback is captured and acted on via regular staff feedback forums.

In response to the demand for new ways of working we introduced hybrid working and have an Employee Assistance Programme in place which is available to all staff. We also offer flexible benefits including universal private medical care.

We are committed to supporting and enhancing our community. To support that goal, we have formed a partnership with our chosen charity in the local area, Queen Elizabeth's Foundation for Disabled People. As part of this partnership, as well as fund raising and "matching" donations, all staff are encouraged to undertake volunteering with the different areas of the charity. We have committed a day's paid volunteering for every member of staff to help achieve this.

In consultation with our staff, we have identified and adopted the core values which ESP stands for:

Be Excellent

- We hold ourselves and others to account and deliver a high standard in quality, safety, and compliance.
- We strive for continuous improvement, focusing on solutions not problems.
- We simplify the complex and deliver quality at pace for our consumers and customers.

Be Transparent

- We are open and honest in all communications.
- We admit and learn from our mistakes.
- We are approachable and accessible.

Be Ambitious

- We are committed to developing our people.
- We push the boundaries to grow our business.
- We are willing to learn and adapt.

Be Respectful

- We treat others with respect and professionalism.
- We are considerate of everyone's workload and priorities.
- We provide a safe, supportive, and inclusive workplace.

Be Collaborative

- We share knowledge, are open to new ideas and welcome input from all.
- We work together as a team to deliver for our customers and stakeholders.
- We have fun and enjoy what we do.

Displaying these values every day, and in all we do, is encouraged, recognised and rewarded.

Responsible – a good corporate citizen, investing in our community.

We recognise that as a provider of essential services we have an obligation to the users of our networks and the wider community to conduct our business in a trustworthy and responsible way.

We have a robust Governance process informed by risk assessments and regular reporting. We have identified and documented our obligations and best practice in relation to our services. We employ a "three lines of defence" model to ensure we are complying with all relevant legislation in relation to our operations;

- the first line is delivered by our team and operatives on the ground,
- our second tier is management with Executive oversight, monitoring and reviewing our performance,
- the third tier is provided by independent and specialist external audits of our activities by accredited third parties.

We have a clear and accountable customer services culture which seeks to provide the highest levels of service. We acknowledge that there will be occasions where we fall short, and we are committed to addressing issues promptly and learning the lessons which will allow us to improve.

The Group participates in the GRESB global benchmark for ESG initiatives for real estate and infrastructure investments. We are proud to have increased our score in all 5 years of participation and will continue to seek further improvements.

SUSTAINABILITY
(CONTINUED)

Corporate and social responsibility

The Companies Act 2006 requires us, to the extent necessary for an understanding of the development, performance or position of the Group's business, to include information about human rights issues. The Group has policies and procedures in place to meet this. Given the nature of the business and area of operations, it is deemed to be a very low risk hence we do not believe it necessary to include such information.

It is recognised that ultimate accountability for corporate and social responsibility lies with the Board. The sectors in which we operate are highly regulated, and our processes are designed to meet all of the regulatory requirements resulting in a record of strong compliance.

Our full corporate social responsibility policy can be located on the ESP Utilities Group website (www.espug.com).

Further detail on our work in the community can be found in the Stakeholders section on page 26.

Environmental matters

The Group's activities do not give rise to any significant direct environmental impacts, however the Board believes that it is important that the Group contributes to protect the environment through sound and responsible operating practices. It is our policy that we will endeavour to:

- **Conduct our business activities in such a way as to ensure that compliance with all relevant Environmental legislation, standards and Codes of Practice is achieved;**
- **Ensure that all associated residual waste materials are disposed of in a safe and responsible manner by both the Group and our external service providers as appropriate;**
- **Minimise the environmental impact of our staff by encouraging them to recycle, reduce printing, and minimise unnecessary business travel.**

www.espug.com

Our full environmental policy can be located on the ESP Utilities Group website.

HEALTH AND SAFETY

The Group's Health and Safety Policy sets out our approach to health and safety and is structured to promote safe practices and environments for our employees, customers and consumers. As an employer and operator of gas, electricity and water networks, we manage health and safety in our business based on four high level principles as set out by the Health and Safety Executive:

- Safety & Environmental Polices
- Risk Management
- Assurance
- Performance

Employee health and safety

Reporting of safety issues by staff is actively encouraged to promote corrective actions to be put in place. All health and safety related incidents are reviewed by the Health and Safety Committee (led by our Head of Assets and including a cross section of operational and non-operational team members), senior operations team management (operations team departmental heads) and with escalation to the Executive Team; a documented investigation is completed where appropriate. We provide training to all staff to help reduce the occurrence of accidents in the workplace.

Health and safety of our networks

The Group has in place an asset management policy that is a key element for the organisation to operate, maintain and develop safe, efficient and reliable distribution networks. The policy allows the Group to meet the needs of investors, customers and consumers and ensure that all legal, regulatory and environmental requirements are addressed. An Asset Management Review Group (led by our Head of Assets and including a cross section of operations team members, overseen by our Operations Director) meets regularly to evaluate and monitor risk, track progress and review audit performance. The Group is accredited to ISO55001 which continues to be maintained through annual external audit.

Health and safety key performance indicators

Safety performance is reviewed monthly at the Executive level and reviewed at every Board meeting. The review uses a standard set of KPIs to monitor trends, including any statutory reporting requirements. The following table sets out safety performance in 2023:

	2023	2023 Target	2022
Lost time injuries[1]	0	0	1
RIDDOR reportable injuries	0	0	0
Non-reportable injuries	1	0	1
Road traffic collisions	0	0	0
RIDDOR/GSMR gas related incidents[2]	0	0	1
HSE enforcement actions	0	0	0
ESQCR reportable issues[2]	0	0	1
Reportable environmental incidents	0	0	0
Near miss reports[3]	66	50	80

1. 2023 Non-Lost Time Injury to a new starter who bruised a toe following a trip upon entry to the building.
2. 2022 Incident caused by third party interference damage.
3. Team members complete near miss reports to identify and proactively address potential concerns before they become more significant. During 2023 there was an increased focus on the quality of these reports, hence 2023 reported numbers were above target but lower than the prior year.

STAKEHOLDER ENGAGEMENT

Employees

The Group's culture is geared towards the success of both the business and the individuals within it. Our people are committed to the organisational goals, motivated by delivering excellent levels of service to both our consumers and customers, and supporting the growth ambitions of the business. Staff understand that their efforts will be rewarded and recognised, aspire to do more than the minimum and see a clear link between their efforts and the business results.

The Executive Team is committed to regular communication through employee newsletters and town hall talks, which is key to ensuring employee buy-in to realise our growth ambitions.

The Group is committed to attracting, developing and retaining the best talent in order to achieve its strategic objectives. All staff are encouraged to undertake ongoing training throughout their career, and the business actively encourages a culture of promoting and developing staff from within, wherever possible.

The Group strives to create a work environment free from discrimination, harassment and bullying, where everyone is treated with dignity and respect. All employment decisions are based on merit, qualifications and abilities.

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status.

In 2022 the Group exceeded the performance targets linked to employee performance bonuses, which were fully paid to eligible team members in 2023.

During 2023 the Group, under the direction of the Executive Team, launched a program of Manager Rewards based on the Groups values and behaviours.

Please see Values and Behaviours – page 29.

The following table sets out our diversity balance as between men and women at the end of 2023:

	2023		2022	
	Male	Female	Male	Female
Board of Directors	5	1	5	1
Executive Team (excluding Board of Directors)	5	1	3	1
Employees	60	57	61	52

1M
Connections

Consumers

The Group serves circa 1,000,000 connections across England, Wales and Scotland through a robust service provision, ensuring that loss of supply impact is minimised across the entire consumer base and consumer cost is minimised through:

- the provision and maintenance of reliable, efficient and sustainable networks
- quick response times to network faults and communication with consumers in a timely manner
- ensuring additional measures are in place to deal with vulnerable consumers
- promotion of fair and affordable access for those who wish to connect to our networks.

The Group has processes in place to ensure we meet our commitments to our consumers. Working closely with our service providers we ensure that disruption to our consumers is minimised and, in particular, that all precautions are in place to ensure their security and wellbeing. Any consumer feedback is reviewed by a dedicated team and escalated to senior management or director level if required.

A winter preparedness mailshot is sent out annually to all consumers with particular emphasis on ensuring that vulnerable consumers are aware of additional services available to them and that their contact details are registered with ESP.

For gas consumers we maintain an Emergency Service Provision with the incumbent GDNs to meet Guaranteed Standards of Performance as set out in out Licence Conditions. The requirement to attend gas escapes and supply failures is monitored to ensure that consumer impact is minimised.

Electrical supply fault attendance performance is monitored against the Electricity (Standards and Performance) Regulations and connections performance against the Electricity (Connection Standards of Performance) Regulations to ensure that consumer impact is minimised.

For water consumers we maintain an Emergency Service Provision with the incumbent Water Companies and our internal supply chain to meet Guaranteed Standards of Performance as set out in our Licence Conditions. The requirement to attend water and wastewater incidents is monitored to ensure that consumer impact is minimised.

Performance is regularly reviewed by the Operation Leadership Team with oversight by the Executive Team.

The Group works with regulators and consumer bodies to subsidise direct consumer connections and it maintains relationships with organisations that provide help for fuel poor consumers.

Health and safety of our networks for our consumers is of paramount importance to the Group – our policies are set out in the Health and safety report on page 25.

STAKEHOLDER ENGAGEMENT

(CONTINUED)

Business Relationships

Developing strong relationships with stakeholders is fundamental to the Group's strategy. Members of the Executive Team 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 regulators and Government departments is a key priority which the Group undertakes bilaterally and as part of the Independent Networks Trade Association (INA), which is Chaired by Vicki Spiers, a member of the Executive Team. Liaison with our key suppliers is through attendance at industry forums and working groups where modifications to sector codes are developed. We seek to pay our suppliers on time within prescribed payment terms, and we do not push suppliers to service levels which we consider unsustainable or unethical.

Environment

As part of the ongoing development of our sustainability strategy, we are seeking views from our stakeholders both internally and externally. It is important to us to understand what our key stakeholders feel are the priorities for ESP and we will increase our engagement externally to build on our strategy year on year.

Community

As part of our business and sustainability goals, we are committed to being an environmentally and socially responsible network owner. Part of this commitment is met by having a positive benefit in communities in which we operate. For ESP, this means an initial focus on the area local to our head office in Surrey.

To support our commitment to social responsibility, in 2023 we selected a local charity partner to dedicate our time and funding to, Queen Elizabeth's Foundation for Disabled People (QEF). To make sure that our employees are fully engaged, we have had speakers from QEF visit our head office and we have given every member of staff a dedicated paid volunteering day each year.

So far our support has included:

- Financial donations
- IT equipment
- Donating money from Christmas raffles
- Volunteering days

Activities undertaken by our staff have included:

- Repairing a carpark and laying new pathways at QEF's rehabilitation centre.
- Modifying toys for children with disabilities for Christmas.
- Fundraising as part of charity running events.

QEF Queen Elizabeth's Foundation for Disabled People

QEF provides a range of support for disabled people. This includes adapting toys for disabled children, providing electric wheelchairs for children too young to receive them on the NHS and supporting drivers that need adaptive technology.

A key part of QEF's work is neuro rehabilitation and nursing care to support people to regain core skills following an acquired brain injury, stroke, incomplete spinal injury or neurological illness.

Clients can be referred to QEF when discharged from hospital. QEF's provision of specialist care at their specialist facility enables more people to regain the skills needed to rebuild lives and to achieve their potential to be as independent as possible. ESP's donations have helped towards, for example:

- the ability to maintain assistive technology in every room;
- the leisure and learning activities which enhance the client experience and can help to meet therapeutic goals;
- the modern, airy and spacious building itself, which contrasts starkly with an institutional hospital environment;
- the ability to welcome guests at all times; with no set visiting times and no prohibitive parking charges, friends and family are a core part of the progress clients can make.

STAKEHOLDER ENGAGEMENT
(CONTINUED)

Guide Dogs

Guide Dogs

During 2023 the Group also supported Guide Dogs for the Blind. A speaker from Guide Dogs visited the offices with a trainee guide dog to explain the work done by the charity, which the Group supported with a financial donation.

Continued support will involve further volunteering and fundraising events with the opportunity for greater employee engagement.

Lenders

The Group has regular contact with our lenders and provides them with the regular reporting, annual and interim accounts and compliance certificates to satisfy the conditions of its facilities. Additional trading or compliance information from the Group is provided on an ad hoc basis as requested, as well as during the Private Placement issuance process.

Values and Behaviours

Our strategy outlines what we do, but by creating and implementing a set of values and behaviours, we wanted to demonstrate what makes the Group unique both to work for, and to work with. Through internal engagement, it was evident our people were keen to have a set of Values and Behaviours to encapsulate the culture we have in place. Our values define our culture, underpinning our performance driven mindset, and during 2023 we embedded these into our recruitment and the development of our people.

Our people embody the culture of our business and therefore we asked volunteers from across the Group to participate in face-to-face workshops to help us build and develop our values, to ensure they were aligned with our existing behaviours. From these workshops, we have introduced five values and each value has three behaviours to help us achieve our strategic goals.

The Strategic report was approved by the Board and signed on its behalf by:

Paul Miles, Chief Financial Officer

26 April 2024

02

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Nicholas Horler

Non-Executive Chairman

Nick has had a 35 year career in the energy industry. He spent 12 years as an executive with Conoco Phillips in the UK and USA. He was a Board member of E.On UK from 1998 to 2007 and CEO of Scottish Power from 2008 to 2010. Nick served as a Non-Executive on the Boards of the Go-Ahead Group, the Royal Mail and Thames Water. He was Chairman of UK Power Reserve from 2015 to its successful sale in 2019. He became Chairman of Horizon Energy Infrastructure in October 2020.

Committees:

Board, Remuneration Committee, Audit, Risk Committee and Water Board

Other key appointments:

Horizon Energy Infrastructure

Kevin O'Connor

Chief Executive Officer

Kevin joined the Group in 2018 from Arriva, where he was Divisional Managing Director of its UK Bus Business. Prior to joining Arriva in 2015, Kevin spent 14 years working across a diverse range of sectors for G4S, the global security solutions provider, serving latterly as the Regional Managing Director for Cash Solutions across the UK and Ireland. Kevin's career has covered regulated and non-regulated sectors, all with a strong focus on delivering for customers in a range of industries. He holds a Masters in Business Administration and holds no other key appointments.

Committees:

Board, Executive Committee and Water Board

BOARD OF DIRECTORS
(CONTINUED)

Paul Miles
Chief Financial Officer

Paul has a wealth of experience as a CFO, most recently as Group CFO for GVC Holdings Plc where he led a merger to create the largest listed company by revenue in the sports betting and gaming sector. Previously he held Group CFO roles at The Wonga Group, Capquest and The Phoenix Group. Paul is a Fellow of the Institute of Chartered Accountants in England and Wales and joined the Group in 2019. He holds no other key appointments.

Committees:
Board, Executive Committee and Water Board

Anna Dellis
Shareholder Director

Anna is a partner at 3i, working in its Infrastructure investment team. She leads asset management activities for its portfolio of economic infrastructure assets across a number of funds. In addition to her board responsibilities at ESP, Anna is on the boards of Advario Singapore Limited (a Singapore oil storage business) and European Waste Holdings (a holding company for a 25% stake in Italian waste treatment business Herambiente). She is also responsible for the team's investment in DNS:NET which is rolling out fibre to the home in the Berlin vicinity. Prior to joining 3i in 2006, Anna qualified as a Chartered Accountant (ICAEW) at PricewaterhouseCoopers. She has a degree in French and German from the University of Nottingham.

Committees:
Board, Remuneration Committee, Audit, Risk Committee and Water Board

Other key appointments:
Advario Singapore Limited, European Waste Holdings Limited, Member of the Advisory Board for DNS:NET Holdings GmbH

BOARD OF DIRECTORS
(CONTINUED)

Bernardo Sottomayor
Shareholder Director

Bernardo joined 3i in 2015 as a Partner with responsibility for origination and execution of new investments across Europe, principally economic infrastructure businesses. Bernardo became Co-Head of European Infrastructure in 2022. He has 20 years of infrastructure investment experience and was most recently a Partner at Antin Infrastructure. Prior to Antin, Bernardo was Managing Director, Head of Acquisitions for Deutsche Bank's European infrastructure fund. Bernardo holds an economics degree from the Nova School of Business and Economics in Lisbon.

Committees:
Board, Remuneration Committee

Other key appointments:
Envol Investments Limited, Atena Investments Limited

Yaadvinder Virdee
Shareholder Director

Yaad joined 3i in 2014 and is a Director in the Infrastructure team. Yaad is primarily responsible for the origination and execution of deals and management of assets in the infrastructure sector. Prior to joining 3i, Yaad worked in the Corporate Finance division of Ernst & Young. He is a member of the Institute of Chartered Accountants of Scotland.

Committees:
Board, Audit, Risk Committee and Water Board

Other key appointments:
Amalthea HoldCo Limited, Future Biogas HoldCo Limited

BOARD OF DIRECTORS
(CONTINUED)

Executive Team

The Directors of the Group's operating companies form the Executive Team. In addition to Kevin O'Connor and Paul Miles, the Executive Team at year end consisted of:

Simon Lees
Operations Director

Simon joined the Group in 2020 following 13 years at National Grid as a Senior Operations Manager running both electricity transmission and gas distribution networks. Prior to joining National Grid, Simon spent 12 years working internationally within power generation on fossil and nuclear projects. He is a graduate Engineer, Chartered Member of the Institute of Mechanical Engineers and a Member of the Institute of Asset Management.

Committees:
Executive Committee

Vicki Spiers
Business Operations Director

Vicki joined the Group in 2001 after 10 years working in the deregulated Gas Shipper market. Her responsibilities include ensuring the Group remains compliant with all Regulatory and Licence obligations. She also covers the IT, legal and project management functions of the business. Vicki is the current Chair of the INA (Independent Networks Association).

Committees:
Executive Committee

Adam Miller
Chief Commercial Officer

Adam joined the Group in 2020 having previously supported the Group as a consultant working on strategy and the change management programme. His background is in support services, where he worked for G4S for 8 years, serving latterly as Regional Managing Director in East Africa. Adam is an engineer and holds a Masters in Business Administration.

Committees:
Executive Committee

BOARD OF DIRECTORS
(CONTINUED)

Executive Team

The Directors of the Group's operating companies form the Executive Team. In addition to Kevin O'Connor and Paul Miles, the Executive Team at year end consisted of:

Stephen Morris

Water Managing Director

Stephen joined the Group in 2021 having previously supported the Group as a consultant working on new business sector opportunities. He previously held MD and COO roles in the muti-utility construction and adoption sector and has over 30 years utility experience within the UK, Australia and the Middle East regions. Stephen is a Chartered Engineer, a Fellow of the IET, past President of the Institute of Asset Management (IAM) and holds a Masters in Business Administration.

Committees:
Executive Committee and Water Board

Peter Whittaker

I&C Delivery Director

Peter joined ESP in January 2022 having worked extensively in the Electricity supply industry for 40 years. Peter has extensive knowledge in electricity distribution networks as the Technical Director for Leep Utilities and the Technical Director and Designated Engineer for Freedom (An NG Bailey company). He had spent the previous 15 years in the independent market place as the Operations Director at Inexus (A BUUK owned IDNO, IGT and NAV).

Committees:
Executive Committee

Simon Loh

Finance Director

Joined ESP in September 2023, Simon was previously the COO for IWG PLC where he worked from 2019. Prior to this, Simon was the Regional Managing Director at Arriva and has held a number of senior finance positions whilst at Arriva and on the Crossrail project. Simon is a Chartered Accountant, having started his career in Ernst & Young's Corporate Finance Team.

Committees:
Executive Committee and Water Board

CORPORATE GOVERNANCE STATEMENT

"STRONG CORPORATE GOVERNANCE IS ESSENTIAL TO MAINTAIN THE HIGHEST STANDARDS IN BUSINESS CONDUCT, AND IS A PRIORITY OF THE BOARD OF DIRECTORS"

NICK HORLER, CHAIRMAN

Chairman's introduction to Corporate Governance

The Group's corporate governance structure has been designed, where appropriate, to be in accordance with the UK Corporate Governance Code, and the Walker Guidelines applicable to private equity investment companies. Although the Group has no requirement to comply, the Board aspires to achieve the levels of corporate governance included within these guidelines.

The Group's Board meet on a monthly basis to review the business' performance and discuss strategic objectives and decisions of the Group. The Directors take decisions for the long-term goals of the Group, recognising the importance of considering the impact to our wider stakeholders.

During 2023 the Board made a number of key strategic decisions that are outlined in Directors' duties and key decisions on page 12. In addition, the Directors continue to discuss ongoing business matters, including the performance of the Group; the response to inflation and maintaining operational performance; and reviewing our risk register in light of the regulatory changes within the utilities sector.

The Group is governed through its Board, and supported by its Executive Committee. Both the Board and the Executive Committee have extensive experience within the utilities and infrastructure asset management sector which are critical to support sound business decisions. The Group has a Group Governance and Compliance Policy that outlines the overarching principles that define the Board's commitment to good governance, and maintaining the highest standards in the conduct of its business.

There are sub-committees responsible for Audit and Risk, and Remuneration, whose responsibilities, meeting regularity and members are outlined below.

Details of the Directors' performance of their duty under Section 172 of the Companies Act 2006, are set out on page 12.

Finally, I would like to welcome Simon Loh, who was appointed to the Executive Committee in September 2023. Simon has a background in operational excellence and commercial delivery and joins us as Finance Director.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

Corporate governance policy

The Group has established its corporate governance policy to define its commitment to governance and business conduct. The policy applies to Directors, employees, and all contractors working for the Group.

The Board is responsible for leading and controlling the Group, for creating value for shareholders and for formulating, reviewing, and approving the Group's strategy, budget, significant items of capital expenditure, acquisitions and senior personnel appointments. Additionally, the Board is responsible for ensuring the Group has the appropriate people, financial resources, and controls in place to deliver its strategy and long-term objectives.

The governance policy is aligned with the Group's strategic objectives and industry best practice and is designed to ensure that we are compliant with regulatory requirements at all times. The Board recognises that there are four principles for effective governance:

- **Commitment to, and the establishment of, a compliance program.**
- **Implementation of a compliance program, including ongoing education and maintenance.**
- **Monitoring and Measuring, reporting and supervision of the compliance program.**
- **Continual Improvement, regular review and continual improvement of the compliance program.**

Governance structure

The Board are responsible for establishing and managing the mission, strategy and corporate governance structure of the Group.

Subsidiaries of the Group are fully owned by the Company, and the Board have delegated authority of implementing strategy and business plans to the Executive Committee.

The Board's Shareholder Directors are employees of 3i Investments plc, the investment manager of the parent company of the Group. The Group maintains communication with its shareholders through these Directors.

Board composition

The Board compromises two Executive Directors (Kevin O'Connor, CEO; and Paul Miles, CFO), three Shareholder Directors (Bernardo Sottomayor; Anna Dellis; and Yaad Virdee) and an independent Chairman (Nick Horler).

The Executive Committee comprises eight Executives (Kevin O'Connor; Paul Miles; Adam Miller, Vicki Spiers; Simon Lees, Stephen Morris, Peter Whittaker and Simon Loh).

Full biographies of the Board and Executive Committee are provided in the Board of Directors on pages 31 to 35.

Board procedure

The Board meets on a regular basis to conduct a review of the position and performance of the Group, to discuss key developments and make decisions in a timely manner in accordance with the strategic objectives of the Group. Board meetings are structured so that the Directors of the Group perform their governance responsibilities for the Group.

During 2023 the Board held eleven meetings. Six were predominantly focused on the Group's commercial performance and future developments. However, during these meetings, any topic subject to Board consideration may be raised and discussed by the Board. In the meeting attendance table on the following page, these have been classified as "Board – Commercial".

A governance calendar is prepared in advance of the financial year which is reviewed and approved by the Board. The calendar outlines the broad topics to be discussed at each Board meeting. The Board discuss Group performance and position in all Board meetings. Through the course of 2023 the Directors discussed scheduled topics such as health and safety, business risks and mitigation, succession planning, cyber risks, customer satisfaction and annual objectives, remuneration and ESG.

Board briefing packs are provided to all Directors prior to meetings. These packs include full information on topics to be discussed in the Board meeting, allowing the Directors to make informed decisions on the topics under discussion. This also allows any Directors that are unable to attend to submit any queries on discussion topics in advance of the meeting. Following the Board meetings, minutes are prepared and provided to Directors for review, then approved at the start of the following Board meeting.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

Board committees

The Board has established the Executive Committee, the Audit and Risk Committee, and the Remuneration Committee, each of which operates with defined terms. No one other than the committee members have a right to attend committee meetings or vote on committee matters, although committees are able to invite non-committee individuals to attend.

During 2023 the number of meetings held, and attendance by Committee members, is outlined below:

	Board	Board - Commercial	Board - Water	Executive Committee	Remuneration Committee	Audit and Risk Committee
2023 meetings	5	6	4	12	1	2
Committee meeting attendance						
Nick Horler	5	6	4	-	1	2
Bernardo Sottomayor	4	6	-	-	1	-
Anna Dellis	5	6	4	-	1	2
Yaad Virdee	4	4	4	-	-	2
Kevin O'Connor	5	6	4	12	-	-
Paul Miles	5	6	4	11	-	-
Simon Loh	-	-	1	3	-	-
Adam Miller	-	-	-	12	-	-
Vicki Spiers	-	-	-	10	-	-
Simon Lees	-	-	-	11	-	-
Stephen Morris	-	-	4	12	-	-
Peter Whittaker	-	-	-	11	-	-

Executive Committee

The Executive Committee, or Executive Management, comprises eight Executive Directors as outlined in the Board of Directors section of this report. In 2023 there were twelve monthly meetings of the Executive Committee. The Executive Committee carries out the day-to-day management of the Group as delegated by the Board.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

Remuneration Committee

In line with the recommendations made in the UK Corporate Governance Code, the Committee is appointed to lead the process for executive remuneration, and to make recommendations to the Board in order that there is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

Membership of the Committee is appointed by the Board in consultation with the Chairman of the Committee. The Board appoint the Chairman of the Committee and determine the period for which he/ she will hold office. The Committee comprises of not less than three Directors, including the Chairman of the Committee, and where possible these should be independent non-executive directors and/or the Chairman of the Group. The quorum for any meeting will be two members of the Committee. The members of the Committee through 2023 were Nick Horler, Bernardo Sottomayor and Anna Dellis. Throughout 2023 the Chairman of the Committee was Anna Dellis.

The Committee meets at least once a year, with special meetings convened as required. The Committee may invite such other persons to its meetings as it deems necessary, but no person other than its members shall have a right to attendance. During 2023 the Committee invited Kevin O'Connor CEO and Paul Miles CFO to the meeting of the Committee.

The Committee undertakes the following duties and responsibilities:

- Recommend for approval by the Board the framework for the remuneration of the Chief Executive Officer, Chief Financial Officer, Chairman and Executives. The remuneration of non-executive directors shall be a matter for the Chairman and the Executives.
- Ensure that members of the Executive Management are provided with appropriate incentive to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group, including bonuses, incentive payments or other awards.
- Reviewing the policy for, and the scope of, pension arrangements for each Executive Director and other senior executives.
- In determining such packages and arrangements, give due regard to any relevant legal requirements and recommendations in the UK Corporate Governance Code.
- Review that the implementation of any contractual terms and any payments made on termination are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Review any major changes in employee benefit structures throughout the Company.
- If appropriate, and after due consultation with the Board, recommend and establish the terms of reference for the appointment of any consultants necessary to advise the Committee on issues within its terms of reference.
- The Committee makes a report to the Board on its proceedings after each meeting and on all matters within its duties and responsibilities.

CORPORATE GOVERNANCE STATEMENT
(CONTINUED)

Audit and Risk Committee

The Committee assists the Board in fulfilling its responsibilities through review of financial reporting process, the system of internal control and management of financial risks, the audit process and process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Committee maintains effective working relationships with the Board, management and the external auditors.

Membership of the Committee is appointed by the Board in consultation with the Chairman of the Committee. The Committee comprises of not less than three Directors, including the Chairman of the Committee, and where possible these should be independent non-executive directors and/or the Chairman of the Group. At least one member of the Committee should have recent and relevant financial experience. The quorum for any meeting will be two members of the Committee. The members of the Committee through 2023 were Nick Horler, Anna Dellis and Yaad Virdee. Throughout 2023 the Chairman of the Committee was Anna Dellis.

The Committee meets at least twice a year, with special meetings convened as required. The Committee invites such other persons to its meetings as it deems necessary. During 2023 the Committee invited Paul Miles, CFO, and Kevin O'Connor, CEO, to both meetings of the Committee. The external auditor shall normally attend meetings of the Committee at which it communicates audit risks and planning, and the full year results. From time to time the Committee may meet with the external auditor without any Executive Board members present.

The Committee undertakes the following duties and responsibilities:

External audit

- Appoint, re-appoint or remove the Group's external auditors
- Agree the engagement, scope and approach, and agree remuneration for audit and non-audit services
- Assess the independence and objectivity of the auditor, and effectiveness and performance of the audit processes
- Review audit findings and discuss any major issues

Internal control and risk management

- Review internal controls and risk management systems and culture of internal control within the Group
- Review implementation of internal control recommendations made by the external auditors
- Review disclosures within the Annual Report regarding internal control.

Financial reporting

- Understand financial risk management processes
- Consider with the external auditors any fraud, illegal acts, deficiencies in control or similar issues,
- Review significant accounting and reporting issues and understand their impact on the financial statements
- Review the Annual Report and financial statements before their submission to the Board including results from the audit
- Review the appropriateness of the going concern assumption

Compliance with laws and regulations

- Review the Group's processes for monitoring compliance with laws and regulations, including updates from management and the Group's legal advisors regarding compliance matters.

During 2023 the Committee:

- Oversaw and reviewed the results from the 2022 audit, including an assessment of the significant areas of estimation and uncertainty, consideration of the Group's going concern status in light of its year end financial position and the response to inflation and maintaining operational performance
- Re-appointed the auditor for a further term
- Reviewed the Group's internal controls and procedures including consideration of recommendations from the auditor
- Monitored the Group's risk management process
- Considered the Group's significant risks and uncertainties, including steps taken to mitigate and assessing the likelihood and impact to the Group

In relation to the 2023 annual report and accounts, the Committee:

- Reviewed the report and financial statements before submission to the Board
- Reviewed the appropriateness of the going concern assumption
- Reviewed significant accounting and reporting issues and understood their impact

The Committee makes a report to the Board on its proceedings after each meeting and on all matters within its duties and responsibilities.

DIRECTORS REPORT

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2023.

Principal activities and business review

The Companies Act 2006 requires the Directors to present a fair and balanced review of the Company and Group's business activities during the year ended 31 December 2023 and its position at the end of the financial year. A full description of the principal activities, performance and position including key performance indicators, and principal risks and mitigations is included in the Strategic report on pages 4 to 29.

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Ownership structure

In June 2017, 3i MIA Holdings Limited purchased the Group as part of a portfolio of five assets owned by private equity fund, Eiser Infrastructure Limited. 3i MIA Holding Limited is wholly owned by 3i Managed Infrastructure Acquisitions LP ("3i MIA LP"). 3i MIA LP was a new fund formed to hold these assets in a £700m unlisted fund which was closed in 2017. 3i MIA LP is managed by 3i Investments plc, which is a wholly owned subsidiary of 3i Group plc. The general partner of 3i MIA LP is 3i Managed Infrastructure GP (2017) LLP. 3i Group plc is listed on the London Stock Exchange. 3i Investments plc actively manages and supports portfolio companies to deliver sustainable growth, in its role as Investment Manager. Key elements of the Investment Manager's collaborative asset management approach are; (i) Access to 3i's considerable network of business leaders and experts; and (ii) Access to financing expertise to ensure the business has an appropriate, sustainable and flexible financial structure.

The Investment Manager is represented on the board by Anna Dellis, Bernardo Sottomayor and Yaad Virdee. 3i MIA LP has Limited Partners. 3i MIA LP is the ultimate controlling party.

Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were:

Anna Dellis (Appointed by 3i MIA LP)
Nicholas Horler (Chairman)
Paul Miles
Kevin O'Connor
Bernardo Sottomayor (Appointed by 3i MIA LP)
Yaadvinder Virdee (Appointed by 3i MIA LP)

Further details on the Directors of the Group can be found on pages 31 to 35. The Directors appointed by 3i MIA LP have oversight of the Group.

Directors' duties

Information on directors' duties has been included in the Strategic Report on page 12.

Corporate governance

A full report on corporate governance of the Group can be found on pages 36 to 40.

Financial risk management

Details of financial instruments are included in note 16 to the financial statements. The Group has no hedging in place, with the majority of debt secured on fixed rate terms. Information financial risk management can be found on page 18 of the Strategic Report.

Results and dividends

The consolidated statement of comprehensive income is set out on page 54 and shows the Group's profit for the year of £0.5m (2022: loss of £10.5m). No dividend was voted or paid during the year.

DIRECTORS REPORT

(CONTINUED)

Future developments

On 1st December 2023 the connections 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. These companies are now in the process of being wound down and it is the intention of the Directors to complete this process in 2024.

Information on other likely future developments in the business of the Group has been included in the Strategic Report on pages 4 to 29.

Post Balance sheet event

There have been no post balance sheet events in the period up to signing of this annual report.

Employees

Information on the Group's employment policies, training, career development, and a statement on employee stakeholder engagement, is included in the Stakeholder engagement report on pages 26 to 29.

Stakeholder engagement

Details of how the Group engages with its employees, consumers, customers, community and environment lenders and shareholders can be found in the Stakeholder engagement report on page 26 to 29.

Details of key decisions made by the Board during the year and the input and impacts to main stakeholders are set out in the Directors duties and key decisions report on page 12.

Creditor payment policy

The Group's policy for payment of suppliers is outlined in the Stakeholder engagement report on page 26 to 29.

Charitable and political donations

During the year the Group made charitable donations of £25,620 (2022: £nil). Details of the Group's charitable and fundraising relationships can be found in the Sustainability section of this report on page 22.

No political donations were made during the year (2022: none).

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 Companies Act 2006) 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.

Auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and a resolution to reappoint Deloitte LLP will be proposed at the next Annual General Meeting.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Energy and carbon disclosures

All entities within the Group, including Zoom Holding Limited, are exempt from reporting on energy and carbon emissions as no individual entity has consumption which exceeds the 40,000kWh reporting threshold. However, in the interests of transparency and holding ourselves accountable we are seeking verification of our Greenhouse Gas Emissions reporting against the ISO 14064 standard. The Group is exempt from reporting Taskforce for Climate-related Financial Disclosures.

The Directors report of the Group for the year ended 31 December 2023 comprises these pages and the sections of the Annual Report referred to under the Corporate governance statement on pages 36 to 40 and other information above which is incorporated into this report by reference.

The Directors' report was approved by the Board and signed on its behalf by:

Paul Miles

Paul Miles,

Chief Financial Officer
Zoom Holding Limited
Company number 05777758 26 April 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Group and Company 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 Group and Company and of the profit or loss of the Group 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.

03

FINANCIAL STATEMENTS

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

1. Opinion

In our opinion the financial statements of Zoom Holding Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's loss 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 consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 23.

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).

2. 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 group and the parent 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 as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 4 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Goodwill impairment assessment; and • Recoverability of parent company's investment in subsidiaries Within this report, key audit matters are identified as follows: ! Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £10,357k (2022: £10,00k) which was determined on the basis of 1.9% (2022: 2.0%) of total assets.
Scoping	We performed full audit scope procedures for the group and all components. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.
Significant changes in our approach	There are no significant changes to our approach from prior year.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

4. 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.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of relevant controls related to the Directors' assessment of the going concern;
- Assessing the reasonableness of the cash flows projections through review of historic forecast accuracy and the appropriateness of the sensitivities performed by management;
- Agreeing available committed facilities to underlying signed debt agreements;
- In conjunction with our internal treasury specialists, where relevant, inspecting the key terms of new funding agreements;
- Performing integrity checks of management's going concern model, including checking for mathematical and clerical accuracy;
- Recalculating debt covenants and assessed compliance over the forecast period;
- Assessing the consistency of the forecasted cash flows with the forecasts prepared for the goodwill and investments impairment models;
- Performing independent sensitivity scenarios tests; and
- Assessing the appropriateness of management's going concern disclosures included within the financial statements.

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 group's and parent 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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

5.1. Goodwill Impairment assessment

Key audit matter description	The group has goodwill across three remaining (2022: five) cash generating units ("CGUs") at 31 December 2023, totalling £14,183k (2022: £19,674k). The group's assessment of goodwill impairment is a judgemental process which requires estimating future cash flows based on management's view of future business prospects, incorporated in a discounted cash flow model. Our key audit matter focuses on the key assumptions used in management's impairment model, specifically discount rate and forecasted cash flows. Refer to page 58 for the respective accounting policy and note 10 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures in response to the key audit matter identified: • Obtained an understanding of relevant controls related to the management assessment of goodwill impairment and review of the group's budget; • Inquired with management and assessed the reasonableness of their underlying assumptions including revenue forecasts from the group's 2024 approved budget, discount rate and forecasted future cash flows; • Assessed each CGU for impairment indicators as at 31 December 2023; • Performed sensitivity analysis to determine the robustness of the model to changes in the underlying assumptions; • Performed an assessment of any contradictory information; and • Assessed the disclosures in the financial statements to determine whether sufficient and appropriate disclosure has been made, in line with the requirements of FRS 102.
Key observations	Based on the audit procedures performed we concluded that the valuation of goodwill is appropriate.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

5.2. Recoverability of parent company's investments in subsidiaries

Key audit matter description	The parent company has investments in 12 subsidiaries at 31 December 2023 totalling £113,610k (2022: £113,610k). Under FRS 102, an impairment test is required where indicators of impairment are identified. Each of the investments are noted to have carrying values in excess of their net asset value which could be a potential indicator of impairment. Management noted no indicators of impairment for the investments in subsidiaries. There is a level of judgement involved in determining the recoverability of the investments in subsidiaries based on the financial position and future prospects of the subsidiaries. This takes into consideration a range of factors such as the trading performance of the subsidiaries, the expected revenue and profit growth including an assessment of the future of gas connections in the UK and cash flow forecasts, as incorporated in management's model. Our key audit matter focuses on the key assumptions used in management's impairment model used to identify impairment indicators, specifically discount rate and forecasted cash flows. Refer to page 59 for the respective accounting policy and note 12 to the consolidated financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures in response to the key audit matter identified: • Obtained an understanding of relevant controls in relation to management's assessment of investment impairment; • Assessed each investment for impairment indicators as at 31 December 2023; • Performed sensitivity analysis on the earnings before interest, tax, depreciation and amortisation forecasts and the discount rate used to identify whether indicators of impairment would exist if a reasonably possible change in these key assumptions were to take place. • Performed an assessment of any contradictory information; and • Assessed the disclosures in the financial statements to determine whether sufficient and appropriate disclosure has been made, in line with the requirements of FRS 102.
Key observations	Based on the audit procedures performed we concluded that the investments in subsidiaries are appropriately stated in the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

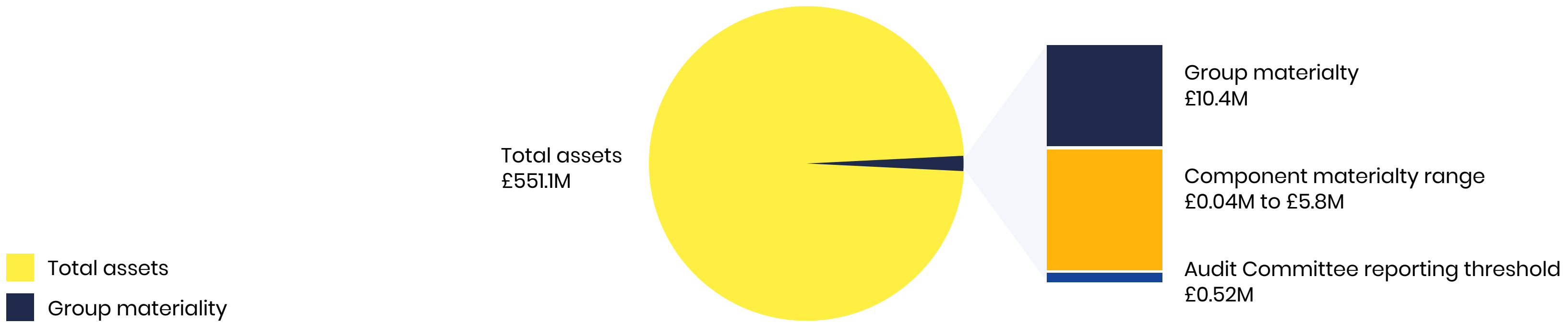
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£10,357k (2022: £10,000k)	£6,214k (2022: £6,000k)
Basis for determining materiality	1.9% (2022: 2.0%) of total assets	Parent company materiality equates to 2.0% (2022: 1.5%) of total assets, which is capped at 60% of group materiality.
Rationale for the benchmark applied	As the main objective of the entity is growth of its connections, this is linked to the assets value of the entity. Therefore, we determined that the primary users of the financial statements will base judgements on total assets.	As the parent company of the group does not generate significant revenues but instead holds investments such that total assets are an appropriate base to use to determine materiality.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) our risk assessment, including our assessment of the group's overall control environment; b) the low turnover in key management personnel; and c) a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £517k (2022: £500k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit procedures have noted that the control environment is the same across the group, with the 12 consolidated entities all operating from the same offices. Therefore, we have continued with the scoping approach to include all entities in scope and then determine balances to scope out from a statutory accounts perspective. From a group perspective, this approach has led to 100% of revenue, 99% of profit before tax, and 99% of net assets being scoped by the group Engagement team. All work was performed by the group Engagement team, and component materiality (excluding the parent company) ranged from £0.04m to £5.8m.

7.2. Our consideration of climate-related risk

As a part of our audit procedures, we have held discussions with Management to understand the process of identifying climate-related risks and opportunities, the determination of mitigating actions and the impact on the group's financial statements. Management consider climate related risks as part of each principal risk as described on pages 15-16, in particular in relation to the future of gas in the UK on page 15. The risks identified do not have a material impact on our key audit matters in the current year. Management has determined that the impact of climate related risks on the financial statements for the year is not material.

We performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transaction. Our procedures included reading disclosures included in the Strategic Report on page 7, as well considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. 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.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

9. 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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. This description forms part of our auditor's report.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT, forensic and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence and environmental regulations.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofgem and Ofwat;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in this regard.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in this regard.

14. 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.

L. Mehrer

Lindsey Mehrer, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

26 April 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Turnover	3	**123,344**	109,022
Cost of sales		**(61,457)**	(57,267)
Gross profit		**61,887**	51,755
Administrative expenses (before charge for bad debts)		**(25,607)**	(24,632)
Net recovery for bad debts		**27**	1,095
Total administrative expenses		**(25,580)**	(23,537)
Group operating profit	4	**36,307**	28,218
Interest receivable and similar income		**1,018**	4
Interest payable and similar charges	7	**(29,694)**	(34,412)
Profit/(loss) on ordinary activities before taxation		**7,631**	(6,190)
Taxation on loss on ordinary activities	8	**(7,170)**	(4,286)
Profit/(loss) for the financial year and total comprehensive profit/(loss) for the year		**461**	(10,476)

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

The notes on pages 57 to 70 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 31 December 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Intangible assets	10		**14,183**		19,674
Tangible assets	11		**460,203**		420,569
Deferred tax asset	17		**329**		7,547
			474,715		447,790
Current assets					
Debtors	13	**17,864**		17,168	
Cash at bank and in hand		**58,194**		43,184	
		76,058		60,352	
Creditors: amounts falling due within one year	14	**(33,607)**		(36,923)	
Net current assets			**42,451**		23,429
Total assets less current liabilities			**517,166**		471,219
Creditors: amounts falling due after more than one year	15		**(727,736)**		(683,169)
Net liabilities			**(210,570)**		(211,950)
Capital and reserves					
Called up share capital	19		**134,242**		134,241
Share Premium			**918**		-
Profit and loss account			**(345,730)**		(346,191)
Equity shareholder deficit			**(210,570)**		(211,950)

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

Paul Miles

PAUL MILES, DIRECTOR

The notes on pages 57 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Share capital	Profit and loss account	Total equity
	2022 £'000	2022 £'000	2022 £'000
1 January 2022	134,241	(335,715)	(201,474)
Comprehensive expense for the year	-	(10,476)	(10,476)
Total comprehensive expense for the year	-	(10,476)	(10,476)
Contributions by and distributions to owners	-	-	-
Total contributions by and distributions to owners	-	-	-
31 December 2022	134,241	(346,191)	(211,950)

	Share capital	Share premium	Profit and loss account	Total equity
	2023 £'000	**2023 £'000**	**2023 £'000**	**2023 £'000**
1 January 2023	**134,241**	**-**	**(346,191)**	**(211,950)**
Comprehensive expense for the year	**-**	**-**	**(461)**	**(461)**
Total comprehensive expense for the year	**-**	**-**	**(461)**	**(461)**
Contributions by and distributions to owners	**-**	**-**	**-**	**-**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**
Issue of share capital	**1**	**918**	**-**	**919**
Total issue of share capital	**1**	**918**	**-**	**919**
31 December 2023	**134,242**	**918**	**(345,730)**	**(217,570)**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Profit/(loss) for the financial year		**461**	(10,476)
Adjustments for:			
Depreciation, amortisation and impairment of fixed assets	10/11	**17,460**	16,473
Net interest payable		**28,676**	34,409
Taxation expense	8	**7,170**	4,286
Increase in trade and other debtors		**(617)**	(6,380)
(Decrease)/ increase in trade creditors		**(4,909)**	11,654
Gain on disposal of tangible fixed assets		**(31)**	(32)
Cash generated by operations		**48,210**	49,934
Finance costs paid		**(42,165)**	(25,083)
Taxation paid		**(32)**	(1,169)
Net cash generated from operating activities		**6,013**	23,682
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets	11	**72**	128
Purchases of tangible fixed assets	11	**(52,173)**	(48,188)
Interest received		**1,018**	4
Net cash used in investing activities		**(51,083)**	(48,056)
Cash flows from financing activities			
Capex loan advanced		**20,000**	30,000
Capex loan repaid		**(80,000)**	-
Loan notes issued		**120,000**	-
Debt issue costs incurred		**(839)**	-
Issue of share capital		**919**	-
Net cash generated from financing activities		**60,080**	30,000
Net increase in cash and cash equivalents		**15,010**	5,626
Cash and cash equivalents at beginning of year		**43,184**	37,558
Cash and cash equivalents at end of year		**58,194**	43,184
Cash and cash equivalents comprise:			
Cash at bank and in hand		**58,194**	43,184
		58,194	43,184

The notes on pages 57 to 70 form part of these financial statements.

COMPANY BALANCE SHEET

for the year ended 31 December 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Investments	12		113,610		113,610
Deferred tax asset			55		-
			113,665		113,610
Current assets					
Debtors	13	284,769		288,609	
Cash at bank and in hand		736		250	
		285,505		288,859	
Creditors: amounts falling due within one year	14	(2,083)		(2,075)	
Net current assets			283,422		286,784
Total assets less current liabilities			397,087		400,394
Creditors: amounts falling due after more than one year	15		(270,893)		(278,235)
Net assets			126,194		122,159
Capital and reserves					
Called up share capital	19		134,242		134,241
Share premium			918		-
Profit and loss account			(8,966)		(12,082)
Equity shareholder funds			126,194		122,159

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a profit for the financial year of £3,116,000 (2022: £1,937,000 loss).

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

Paul Miles

PAUL MILES, DIRECTOR

The notes on pages 57 to 70 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Share capital	Profit and loss account	Total equity
	2022 £'000	2022 £'000	2022 £'000
1 January 2022	134,241	(10,145)	124,096
Comprehensive expense for the year	-	(1,937)	(1,937)
Total comprehensive expense for the year	-	(1,937)	(1,937)
Contributions by and distributions to owners	-	-	-
Total contributions by and distributions to owners	-	-	-
31 December 2022	134,241	(12,082)	122,159

	Share capital	Share premium	Profit and loss account	Total equity
	2023 £'000	2023 £'000	2023 £'000	2023 £'000
1 January 2023	134,241	-	(12,082)	122,159
Comprehensive profit for the year	-	-	3,116	3,116
Total comprehensive profit for the year	-	-	3,116	3,116
Contributions by and distributions to owners	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Issue of share capital	1	918	-	919
Total issue of share capital	1	918	-	919
31 December 2023	134,242	918	(8,966)	126,194

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1. Accounting policies

Zoom Holding 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 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.

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 preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 2).

Parent Company disclosure exemptions

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

- Only one reconciliation of the number of shares outstanding at the beginning and end of the year has been presented as the reconciliations for the Group and the Parent Company would be identical;
- No cash flow statement has been presented for the Parent Company;
- Disclosures in respect of the Parent Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for 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;

The following principal accounting policies have been applied:

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding that at 31 December 2023 the Group made a small profit for the year but had net liabilities of £210,570,000 (2022: £211,950,000). The Group is financed by a mixture of finance provided by shareholders in the form of £25,440,000 12% PIK notes (2022: £24,773,000); £245,453,000 8% PIK notes (2022: £253,462,000) listed on the Channel Islands Stock Exchange, and bank loans which totalled £425,536,000 (2022: £373,132,000) at the balance sheet date.

The Directors have concluded that the Group will be able to operate within its current facilities and comply with its covenants for the foreseeable future.

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, the challenging UK housebuilding market, and current cost of living pressures including reductions in forecast new connections and reductions to forecast EBITDA. The Directors do not believe there will be any material financial or operational impact from these in the future.

On 6 October 2017 ESPUG Finance Limited entered into 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, which were increased by £120m in the year from the issue of new loan notes.. The external private loan placements have maturities of ten, fifteen and twenty years at fixed rates of interest, as shown in note 15. These loans have an investment grade credit rating of Baa2 from Moody's Investor Services.

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 the going concern basis.

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

1. Accounting policies (continued)

Basis of consolidation

The consolidated financial statements present the results of Zoom Holding Limited and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. New asset purchases are initially recorded at cost and subsequently depreciated over their estimated useful life. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of gas transportation and measurement for gas suppliers, together with electricity distribution charges from its IDNO business during the period.

Income from the transport of gas through the Group's pipelines is recognised on the basis of actual or estimated volumes delivered in the financial period and rental income of metering equipment is recognised for rental periods covered by the financial statements. For gas the Last Resort Supplier Payment levy (LRSP) was billed separately and could be easily identified on invoicing. It has been presented net in the income statement.

Electricity income is recognised on the basis of actual or estimated consumption in the financial period. For electricity the LRSP levy was recovered through industry wide tariffing, increasing both gross revenues and DUoS cost of sale for the business.

Water income is derived from the supply of water and sewerage services to residential customers. Income from the transport of water and sewerage using the Company's infrastructure is recognised on the basis of actual or estimated volumes delivered in the financial period.

Turnover arises solely within the United Kingdom.

Intangible fixed assets - Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the consolidated statement of comprehensive income over the Directors' estimate of its useful economic life that is considered to be 20 years. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

a) Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets by equal instalments over their estimated useful lives as follows:

Fixtures, fittings, tools & equipment	4-8 years
Gas networks	60 years
Motor vehicles	4 years
Meters	15-20 years
Prepayment meters	10 years
Electricity networks	40 years
Water networks	60 years

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

1. Accounting policies (continued)

Tangible fixed assets (continued)

b) Third party contributions

Contributions, from owner-occupiers of premises, which partly offset the capital expenditure on the infill networks, are received at the time of initial connection. These receipts are treated as deferred income and released to turnover in the statement of comprehensive income, over the useful life of the related assets.

Impairment of fixed assets, goodwill and investments

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.

Consideration has been given to the future of the Groups gas networks in the context of the goal for decarbonisation of heat by 2050 and the conclusion is that given recent clear progress in the development of technology to re-purpose the existing gas networks to hydrogen, it is still reasonable to estimate a useful economic life for our gas networks of 60 years. This is in line with other gas network operators.

Investments

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

Employee benefits

The Group operates a defined contribution pension scheme. Contributions to the scheme are charged to the statement of comprehensive income in the period in which they become payable. The assets of the scheme are held separately in an independently administered fund.

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.

Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases and their annual rentals are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

1. Accounting policies (continued)

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's subsidiaries operate and generate 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 is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

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 have been enacted or substantively enacted by the reporting date.

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 Group and Company's reserves are as follows:

- Called up share capital represents the nominal value of shares issued.
- 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

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

In preparing these financial statements, the Directors have made the following judgements:

- The phasing out of new connections of gas heated residential properties has been announced to commence in 2024 in Scotland and 2025 in England and Wales. The Directors anticipate there being a phased transition that will extend beyond the Government's target, and have planned accordingly to ensure the Group has the necessary capabilities to continue to win, adopt and maintain gas networks.

In preparing these financial statements, the Directors have determined the following key source of estimation uncertainty:

- Tangible fixed assets are depreciated over their useful lives. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles, Government policy on the future of gas networks and industry trends are taken into account.

3. Analysis of Turnover

	2023 £'000	2022 £'000
Analysis by class of business:		
Gas transportation	**44,092**	37,378
Gas metering	**11,738**	9,546
Electricity distribution	**66,768**	61,372
Water & waste water	**15**	-
Release of deferred income on third party contributions	**731**	726
	123,344	109,022

The Group's revenue is generated in the United Kingdom (excluding Northern Ireland).

4. Operating profit

	2023 £'000	2022 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	**11,969**	10,983
Amortisation of intangible assets, including goodwill	**5,491**	5,490
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**17**	16
Operating lease – land and buildings	**232**	232
Operating lease – other operating leases	**27**	27
Fees payable to the Company's auditor for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	**215**	214
Other services	**3**	6

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

5. Employees

	2023 £'000	2022 £'000
Group		
Staff costs (including Directors) consist of:		
Wages and salaries	**8,254**	6,750
Social security costs	**1,086**	990
Cost of defined contribution pension scheme	**697**	587
	10,037	8,327

	2023 Number	2022 Number
The average monthly number of employees for the Group during the year was as follows:		
Gas	**61**	67
Electricity	**58**	49
Water	**7**	5
	126	121

Company

The Company does not directly employ any individuals.

6. Directors' remuneration

	2023 £'000	2022 £'000
Group		
Directors' emoluments	**5,349**	1,774
Group contributions to defined contribution pension schemes	**-**	-

There were three paid directors during the year (2022: three). The remuneration of the highest paid director who served during the period was as follows:

	2023 £'000	2022 £'000
Directors' emoluments	**3,851**	994
Group contributions to defined contribution pension schemes	**-**	-

Company

The directors received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2023 (2022: nil). The Directors are considered to be the only key management personnel.

7. Interest payable and similar charges

	2023 £'000	2022 £'000
Bank loans	**14,787**	12,003
Fair value (gains)/losses on financial instruments	**(7,001)**	-
12% PIK loan note	**2,861**	2,785
8% PIK loan note	**19,047**	19,624
	29,694	34,412

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

8. Taxation on profit on ordinary activities

	2023 £'000	2023 £'000	2022 £'000	2022 £'000
UK corporation tax				
Current tax on profits of the year		-		217
Adjustment in respect of previous periods		(48)		11
Total current tax		(48)		228
Deferred tax				
Deferred tax current period	7,155		3,936	
Effect of change in tax rate	-		105	
Prior year adjustment	63		17	
		7,218		4,058
Total tax charge		7,170		4,286

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023 giving a blended rate for the year of 23.52% (2022: 19%), being the average of 19% for the period to 31 March 2023 and 25% thereafter.

	2023 £'000	2022 £'000
Profit/(Loss) on ordinary activities before tax	**7,361**	(6,190)
Current tax at 23.52% (2022: 19%)	**1,729**	(1,176)
Effects of:		
Expenses not tax deductible	**4,962**	5,324
Other permanent difference	**74**	5
Payment for Group relief	**-**	139
Effect of change in tax rate change on opening deferred tax balances	**425**	105
Prior year adjustment	**15**	(111)
Deferred tax not recognised	**(35)**	-
	7,170	4,286

For further information on deferred tax balances see note 17.

9. Parent company result for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a profit for the financial year of £3,116,000 (2022: loss £1,937,000).

10. Intangible assets

Group	Goodwill on consolidation £'000
Cost or valuation	
At 1 January 2023	109,067
At 31 December 2023	**109,067**
Amortisation	
At 1 January 2023	89,393
Charge for the year	5,491
At 31 December 2023	**94,884**
Net book value	
At 31 December 2023	**14,183**
At 31 December 2022	19,674

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

11. Tangible fixed assets

Group	Electricity & Gas Networks £'000	Meters £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2023	470,146	35,032	4,910	972	511,060
Additions	46,645	3,959	733	307	51,644
Disposals	-	(1,157)	-	(114)	(1,271)
At 31 December 2023	**516,791**	**37,834**	**5,643**	**1,165**	**561,433**
Depreciation					
At 1 January 2023	75,095	12,106	2,961	329	90,491
Charge for the year	8,418	2,887	392	272	11,969
Disposals	-	(1,157)	-	(73)	(1,230)
At 31 December 2023	**83,513**	**13,836**	**3,353**	**528**	**101,230**
Net book value					
At 31 December 2023	**433,278**	**23,998**	**2,290**	**637**	**460,203**
At 31 December 2022	395,051	22,926	1,949	643	420,569

The PP loan notes in the subsidiary undertaking, ESPUG Finance Limited, are secured by an All Assets charge over the assets of the Group.

12. Fixed asset investments

Company	Group undertakings £'000
Cost	
At 1 January 2023 and 31 December 2023	113,610

The undertakings in which the Company has interest at the year end are as follows:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Zoom Infrastructure Limited*	England & Wales	100%	Holding company
Zoom Gas Pipelines Limited	England & Wales	100%	Holding company
ESP Utilities Group Limited	England & Wales	100%	Holding company
ESPUG Finance Limited	England & Wales	100%	Finance & Holding company
E.S. Pipelines Limited	England & Wales	100%	Gas transport
ESP Connections Limited**	England & Wales	100%	Gas transport
ESP Networks Limited**	England & Wales	100%	Gas transport
ESP Pipelines Limited**	England & Wales	100%	Gas transport
Gas Newco 1 Limited**	England & Wales	100%	Gas transport
ESP Electricity Limited	England & Wales	100%	Independent distribution network operator
ESP Water Limited	England & Wales	100%	Water company
ESP Water Retail Limited**	England & Wales	100%	Water company

* Directly owned
** Non trading

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

On 1st December 2023 ESP Connections Limited, ESP Networks Limited and ESP Pipelines Limited transferred all trade and assets to E.S. Pipelines Limited. No trade has occurred since this date.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

13. Debtors

	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Trade debtors	**8,496**	4,727	**-**	-
Loans owed by Group undertakings	**-**	-	**284,757**	288,609
Corporation tax	**894**	814	**-**	-
Other debtors	**688**	9,735	**12**	-
Prepayments and accrued income	**7,786**	1,892	**-**	-
	17,864	17,168	**284,769**	288,609

The amounts owed by Group undertakings relate to intercompany balances which do not bear interest and are repayable on demand by the Company when sufficient funds are available to do so.

14. Creditors: amounts falling due within one year

	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Trade creditors	**14,482**	13,120	**62**	-
Other creditors	**1,132**	2,204	**-**	-
Accruals and deferred income	**17,754**	21,380	**15**	69
Other taxation and social security	**239**	219	**-**	-
Loan due to Group undertaking	**-**	-	**2,006**	2,006
	33,607	36,923	**2,083**	2,075

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

15. Creditors: amounts falling due after more than one year

	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Loan notes	**425,536**	313,132	**-**	-
Capex loan	**-**	60,000	**-**	-
12% PIK notes	**25,440**	24,773	**25,440**	24,773
8% PIK notes	**245,453**	253,462	**245,453**	253,462
Deferred income	**31,307**	31,802	**-**	-
	727,736	683,169	**270,893**	278,235

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 13 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 13 May 2041

£60m at 6.91% Senior Secured Tranche B 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%.

The 12% and 8% PIK loan notes are listed on the Channel Island Stock Exchange and mature in 2036.

The deferred income relates to contributions, from owner-occupiers of premises, partly to offset the capital expenditure on the infill networks that are received at the time of initial connection. These receipts are released to the statement of comprehensive income, as turnover, over the useful life of the related assets.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

15. Creditors: amounts falling due after more than one year (continued)

The maturity of sources of debt finance is as follows:

	Loans and overdrafts 2023 £'000	Loans and overdrafts 2022 £'000
Group		
In one year or less, or on demand	-	-
In more than one year but not more than five years	54,000	60,000
In more than five years	642,429	591,367
	696,429	651,367

Company	Loans and overdrafts 2023 £'000	Loans and overdrafts 2022 £'000
In one year or less, or on demand	-	-
In more than one year but not more than five years	-	-
In more than five years	270,893	278,235
	270,893	278,235

16. Financial instruments

The Group's financial instruments may be analysed as follows:

	Group 2023 £'000	Group 2022 £'000
Financial assets *measured at amortised cost:*		
Cash at bank	58,194	43,184
Trade debtors	8,496	4,727
Other debtors	688	9,735
Financial liabilities *measured at amortised cost:*		
Trade creditors	14,482	13,120
Other creditors	1,132	2,205
Accruals	17,754	20,668
Loan notes	374,537	313,132
Capex loan	-	60,000
12% PIK notes	25,440	24,773
8% PIK notes	245,453	253,462
measured at fair value through profit or loss		
Loan notes	51,000	-

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

17. Deferred tax

Deferred tax	2023 £'000	2022 £'000
Group		
At 1 January	**7,547**	11,605
Charged to profit or loss	**(7,218)**	(4,058)
At 31 December	**329**	7,547
Comprising:		
Deferred tax asset	**32,181**	34,295
Deferred tax liability	**(31,852)**	(26,748)
	329	7,547

As at 31 December 2023, the Group has losses carried forward of £9,122k on which no deferred tax asset has been recognised on the grounds that suitable profits against which the losses could be offset are not forecast due to belonging in companies without forecast revenue. There is a deferred tax asset for losses carried forward of £4,030k recognised in trading companies due to the likelihood of trading at a profit in 2024.

Deferred tax - Group	31 December 2023 £'000	31 December 2022 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**(31,852)**	(26,748)
Other timing differences	**31,082**	34,295
Tax losses	**1,099**	-
At 31 December	**329**	7,547

It is estimated that deferred tax liabilities arising on fixed assets will not reverse in the next accounting period.

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

18. Pensions

Defined contribution scheme

The amount recognised in the statement of comprehensive income as an expense in relation to the Group's defined contribution schemes is £697,000 (2022: £587,000). The balance outstanding at year end was £nil (2022: £nil).

19. Share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
134,201,130 'A' ordinary shares of £1 each	**134,201**	134,201
40,000 'A' deferred shares of £1 each	**40**	40
127,612 'B' ordinary shares of £0.01 each	**1**	-
	134,242	134,241

During the year, 40,000 B shares were reclassified to deferred A shares. The holders of A deferred shares have no rights to a distribution of profits of the Company and have no rights to vote on any question. The holders of the A deferred shares shall between them be entitled to the A deferred shareholder proportion of the Capitalisation Value on the occurrence of a Liquidity Event as laid down within the Articles of Association.

During the year 127,612 B ordinary shares were allotted creating a share premium of £918,000, which is the sole balance at year end. The holders of B ordinary shares have limited rights to distribution of profits of the Company as per the prescribed particulars of the shares, and have no rights to vote on any question. The holders of the B shares shall between them be entitled to the B shareholder proportion of the Capitalisation Value on the occurrence of a Liquidity Event as laid down within the Articles of Association and the prescribed particulars of the shares.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

20. Commitments under operating leases

The Group had minimum lease payments under non-cancellable operating leases as set out below:

	2023 £'000	2022 £'000
Land & Buildings		
Not later than 1 year	**232**	232
Later than 1 year and not later than 5 years	**291**	523
Later than 5 years	**-**	-
Total	**523**	755

Other Operating Leases	**2023 £'000**	2022 £'000
Not later than 1 year	**-**	25
Later than 1 year and not later than 5 years	**-**	-
Later than 5 years	**-**	-
Total	**-**	25

The Company had no commitments under non-cancellable operating leases as at the balance sheet date.

21. Capital commitments

	Group 2023 £'000	Group 2022 £'000	**Company 2023 £'000**	Company 2022 £'000
Contracted but not provided for	**185,804**	184,440	**-**	-

Capital commitments are in respect of electricity, gas and water networks capital expenditure contracted but not provided for as at 31 December 2023.

22. Related party disclosures

The parent undertaking is 3i MIA Holdings Limited, which is wholly owned by 3i Managed Infrastructure Acquisitions LP ("3i MIA LP").

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 and smallest group in which the results of the Group are consolidated is that headed by Zoom Holding Limited.

Debt instruments due to the parent undertaking, the 12% and 8% PIK Notes, are disclosed in note 1 and 15 and interest accrued on these instruments disclosed in note 7.

The Directors consider that all related party transactions have been appropriately disclosed.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

23. Segmental information

Description of segments

The Group has two trading subsidiaries and three subsidiaries recently ceasing trade licenced by Ofgem: one subsidiary is an electrical distribution company engaged in the development of electrical distribution as an independent operator 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. From 1st December 2023 all gas transportation activity was hived up into one licenced company.

The trade and assets of the three gas transportation subsidiaries classed as non-trading were hived up, therefore this transition should not affect the segmental analysis.

The Group has one trading subsidiary licenced by Ofwat.

Factors that management use in identification of segments

The Group's reportable segments are based along the lines of i) Gas Transportation companies of which there are four licenced companies ii) One Electrical distribution licence company iii) One water supply company.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team and Directors of ESP Utilities Group Limited.

Measurement of operating segment profit, assets and liabilities

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with FRS102 but excluding non-recurring losses and gains, such as goodwill impairment, fair value, financing and deferred tax movements relating to loans.

Segment assets exclude tax assets and assets used primarily for corporate purposes. Segment liabilities exclude tax liabilities.

	Water 2022 £'000	Electricity 2022 £'000	Gas 2022 £'000	Total 2022 £'000
Group's turnover per consolidated statement of comprehensive income	–	61,372	47,650	109,022
Depreciation	(6)	(2,042)	(8,509)	(10,557)
Segment profit	(502)	11,858	4,491	15,847
Administrative expenses				(590)
Amortisation				(5,490)
Financial expenses				(15,960)
Financial income				3
Group loss before tax				(6,190)

	Water 2023 £'000	**Electricity 2023 £'000**	**Gas 2023 £'000**	**Total 2023 £'000**
Group's turnover per consolidated statement of comprehensive income	**15**	**66,773**	**56,556**	**123,344**
Depreciation	**(12)**	**(2,409)**	**(9,549)**	**(11,970)**
Segment (loss)/profit	**(610)**	**12,802**	**9,354**	**21,546**
Administrative expenses				**(917)**
Amortisation				**(5,490)**
Financial expenses				**(8,220)**
Financial income				**712**
Group profit before tax				**7,631**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2023

23. Segmental information (continued)

	Water 2022 £'000	Electricity 2022 £'000	Gas 2022 £'000	Total 2022 £'000
Additions to non-current assets	62	18,904	28,846	47,812
Reportable segment assets	150	107,875	340,092	448,117
Intangible assets				19,674
Tangible assets				21,965
Tax assets				7,614
Cash at bank and in hand				32,156
Total Group assets				529,526
Reportable segment liabilities	15	16,198	74,704	90,917
Loans and borrowings (excluding leases and overdrafts)				651,367
Deferred tax and group relief				(11,036)
Other liabilities				9,944
Total Group liabilities				741,192

	Water 2023 £'000	**Electricity 2023 £'000**	**Gas 2023 £'000**	**Total 2023 £'000**
Additions to non-current assets	**352**	**24,699**	**26,593**	**51,644**
Reportable segment assets	**706**	**125,623**	**352,809**	**479,138**
Intangible assets				**14,183**
Tangible assets				**9,766**
Tax assets				**772**
Other assets				**27**
Cash at bank and in hand				**46,887**
Total Group assets				**550,773**
Reportable segment liabilities	**46**	**17,070**	**63,564**	**80,680**
Loans and borrowings (excluding leases and overdrafts)				**700,168**
Deferred tax and group relief				**(18,672)**
Other liabilities				**(833)**
Total Group liabilities				**761,343**

Analysis of the Group's Revenue has identified that the Group has three Key customers (combined gas and electricity utilities) whose turnover is greater than 10% and their percentages are: 25.54%, 19.49% and 16.35% (2022: three customers 25.76%, 21.89% and 10.03%).

GLOSSARY OF TERMS

COSHH	Control of Substances Hazardous to Health
DNO	Distribution Network Operator
DUoS	Distribution Use of System
DWI	Drinking Water Inspectorate
ESQCR	Electricity Safety, Quality and Continuity Regulations
EV	Electric Vehicle
GDN	Gas Distribution Network
GSMR	Gas Safety (Management) Regulations 1996
HSE	Health and Safety Executive
ICP	Independent Connection Provider – constructor of electricity networks
IDNO	Independent Distribution Network Operator
IGT	Independent Gas Transporter
INA	Independent Networks Association
MP	Member of Parliament
NAV	New Appointments and Variations
Ofgem	Office of Gas and Electricity Markets
Ofwat	Water Services Regulation Authority
RA	Risk Assessment
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
SH&E	Safety, Health and Environment
SLP	Self Lay Provider – constructor of water and sewerage networks
SSRA	System Safety Risk Assessment
UIP	Utilities Infrastructure Provider – constructor of gas networks

2023

ANNUAL REPORT & ACCOUNTS

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