

ESP Utilities Group Limited

Report and Financial Statements

Year Ended

31 December 2016

Registered number 2612105

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ESPUG Utilities Group Limited

Report and financial statements for the year ended 31 December 2016

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Directors

R Wallace
N J Clark
J Hector
T W Butler
G McQuater
S Williams
V Spiers

Secretary and registered office

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

Company number

2612105

Auditors

BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA

ESP Utilities Group Limited

Strategic report for the year ended 31 December 2016

Principal activities and future developments

The principal activity of the ESP Utilities Group Limited ("Company") is a holding company. The Company has five trading subsidiaries (together "the Group"): 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.

The directors believe it is appropriate to present the accounts on a going concern basis as set out in note one.

Financial review

The consolidated statement of comprehensive income is set out on page 7 and shows turnover for the period of £45,744,000 (2015: £38,200,000). Profit for the period was £11,494,000 (2015: £9,205,000).

The directors consider connections installed and turnover to be the main key performance indicators for the Group in monitoring its performance during the year.

The number of installed connections as at the end of the year was 502,707 (including 94,115 electricity connections) with a growth of 13.4% in the year, compared to 13.8% in the previous year. This is directly related to the build out of the Group's order book from previous years.

Turnover has increased during the year due to the increase in connections mentioned above. Based on the current economic forecasts and given the competitive market conditions, expectations for 2017 are that turnover will continue to grow as the order book for both gas and electricity connections is installed.

The Group continues to expand its portfolio of assets through three main areas of activity. First, through the adoption of gas and electricity networks for newly built housing installed by Utility Infrastructure Providers ("UIPs"); second, through developing gas network extensions installed to connect existing properties previously not served by the national gas system (known as infill) and third, through adopting gas and electricity industrial and commercial ("I&C") connections for commercial parks.

The Group's management actively nurture relationships with key partners by servicing social landlords for infill projects and also continue to strengthen relationships with UIPs developing new housing networks as well as I&C market participants.

ESP Utilities Group Limited

Strategic report for the year ended 31 December 2016 (*continued*)

Principal risks and uncertainties

The market for the adoption of new housing networks is competitive and is price sensitive.

New housing connections from UIPs are subject to the strength of the housing market. Given the current economic conditions experienced in the UK housing market the directors have adjusted the forecasted new wins for 2017 accordingly to reflect these conditions.

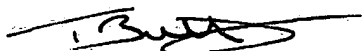
A large proportion of the infill market the Group targets is driven in part by government programs to bring more affordable (and lower CO2 emitting) fuel to social housing. Indirectly the Group is partly dependent on government spending without which the number of infill projects developed could reduce.

The Independent Gas Transporter ("iGT") business market currently has four main competitors including the Group. The ownership and operation of gas pipelines represents approximately 48% (2015: 53%) of the Group's revenue. The Office of Gas and Electricity Markets ("Ofgem") regulates the activities of the Group, including the transportation tariffs that the Group charges. In 2004 Ofgem introduced the Relative Price Control ("RPC") mechanism. The purpose of RPC is to keep parity between the charges levied by iGTs, including the Group's, and the operators of the Gas Distribution Networks. RPC allows the Group to increase prices partly in line with the Retail Price Index ("RPI"). Therefore the Group's income will vary in accordance with RPI. The Group also has a number of gas connections built prior to the introduction of RPC, and reducing in percentage terms of the connections generating revenue each year, with the transportation tariffs allowed for these connections set according to methodologies in place at the time of installation.

The Group also operates and maintains meters connected to its gas pipelines. Meter income represents approximately 20% (2015: 22%) of the Group's revenue. The meter market in the UK has been open to competition since 2004 and there is a potential risk that meters could be replaced prematurely resulting in lost income. The directors have put measures in place to help mitigate this risk.

The Independent Distribution Network (electricity) Operator (iDNO) business is a maturing with three main competitors including the Group. The ownership and operations of electricity market represents 32% (2015: 25%) of the Group's revenue; the importance of this market is increasing each year as the market matures and more connections are installed on iDNO networks. Historically, electricity connections installed were adopted by the incumbent DNOs until 2001 when the market was opened to competition allowing iDNOs to adopt electricity connections. The regulatory changes in April 2010 to standardise the iDNOs' tariffs has opened up most of the market to competition, providing greater opportunities to iDNOs. As the market continues to mature it is expected that the iDNOs will obtain a similar market presence as the iGTs in the gas market.

For and on behalf of the Board



T W Butler
Director

Date: 11th April 2017

ESP Utilities Group Limited

Report of the directors for the year ended 31 December 2016

A review of the business and principal risks and uncertainties has been included with the strategic report on page one.

Directors

The directors in office during the period were as follows:

R Wallace
N J Clark
J Hector
T W Butler
V Spiers
G McQuater
S Williams (appointed 16/05/2016)
M Carr (resigned 16/05/2016)
S Springett (resigned 09/11/2016)

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 auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Dividend

No dividend was paid during the period (2015: nil).

Financial instruments

Liquidity risk and cash flow risk

The Company holds financial instruments to finance its operations. Operations are financed by a mixture of retained profits and parent company loans. The Group has £136,529,000 (2015: £132,977,000) of debt outstanding with its parent company. The directors have controls in place to manage cash flow and maintain interest payments. The majority of loans are based upon LIBOR or bank base rate plus a premium. In addition there is one 'payment in kind' loan note.

Credit risk

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

Price risk

The Group's balance sheet and statement of comprehensive income is exposed to changes in its transportation tariffs, which are regulated by Ofgem – as disclosed in the strategic report under principal risks and uncertainties.

Likely future developments in the business of the Company

Information on likely future developments in the business of the Company has been included in the Strategic Report on page 1.

ESP Utilities Group Limited

Report of the directors for the year ended 31 December 2016 (*continued*)

Post balance sheet events

On 22nd of December 2016 EISER Finance Limited announced that it had agreed a sale of a portfolio of assets by the EISER Global Infrastructure Fund to a fund managed by 3i Investments plc. This will include ESP Utilities Group Limited and all its underlying subsidiaries. The sale is subject to certain conditions usual for a transaction of its type and it is anticipated that it would complete in the first half of 2017.

The directors see no change to the group's existing business model or the activities of the group and note that this event does not impact the figures in the accounts as at 31st December 2016.

Auditors

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

From and on behalf of the Board



T W Butler
Director

Date: 11th April 2017

ESP Utilities Group Limited

Statement of the directors' responsibilities for the year ended 31 December 2016

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' 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). 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 the 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.

ESP Utilities Group Limited

Independent auditor's report

We have audited the financial statements of ESP Utilities Group Limited for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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.

ESP Utilities Group Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

Anna Draper (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom

13/4/17

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

ESP Utilities Group Limited

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	3	45,744	38,200
Cost of sales		(16,676)	(13,303)
Gross profit		29,068	24,897
Administrative expenses		(6,397)	(5,842)
Group operating profit	4	22,671	19,055
Other interest receivable and similar income		8	2
Interest payable and similar charges	7	(11,079)	(10,601)
Profit on ordinary activities before taxation		11,600	8,456
Taxation on profit on ordinary activities	8	(106)	749
Profit for the financial year and total comprehensive income for the year		11,494	9,205

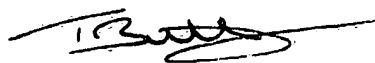
The notes on pages 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated balance sheet at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Tangible assets	10		<u>229,258</u>		<u>211,338</u>
Current assets					
Debtors	12	10,321		7,452	
Cash at bank and in hand		<u>4,486</u>		<u>4,569</u>	
		14,807		12,021	
Creditors: amounts falling due within one year	13	<u>156,446</u>		<u>148,493</u>	
Net current liabilities			<u>(141,639)</u>		<u>(136,472)</u>
Total assets less current liabilities			<u>87,619</u>		<u>74,866</u>
Creditors: amounts falling due after more than one year	14		<u>33,032</u>		<u>31,879</u>
Provisions for liabilities	16		<u>9,753</u>		<u>9,647</u>
Net assets			<u><u>44,834</u></u>		<u><u>33,340</u></u>
Capital and reserves					
Called up share capital	18		14,721		14,721
Profit and loss account			<u>30,113</u>		<u>18,619</u>
Equity attributable to owners of the parent company			<u><u>44,834</u></u>		<u><u>33,340</u></u>

The financial statements were approved by the Board of Directors and authorised for issue on 11th April 2017 and were signed on its behalf by:


T W Butler
Director

The notes on pages 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total equity 2016 £'000	Share capital 2015 £'000	Profit and loss account 2015 £'000	Total Equity 2015 £'000
1 January	14,721	18,619	33,340	14,721	9,414	24,135
Comprehensive income for the year	-	11,494	11,494	-	9,205	9,205
Profit for the year	-	11,494	11,494	-	9,205	9,205
Total comprehensive income for the year	-	11,494	11,494	-	9,205	9,205
Contributions by and distributions to owners						
Dividends	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-
31 December	14,721	30,113	44,834	14,721	18,619	33,340

The notes on pages 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of cash flows for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit for the financial year		11,494	9,205
Adjustments for:			
Depreciation and amortisation of fixed assets	10	6,079	6,197
Net interest payable		11,078	10,599
Taxation expense/(credit)	8	106	(749)
Increase in trade and other debtors		(2,866)	(1,285)
Increase in trade creditors		4,871	340
Loss/(Gain) on disposal of tangible assets		(145)	7
Cash from operations		30,618	24,314
Interest paid		(13,042)	(15,548)
Taxation paid		-	-
Net cash generated from operating activities		17,575	8,766
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		15	58
Purchases of tangible fixed assets	10	(23,196)	(22,381)
Interest received		8	2
Net cash used in investing activities		(23,173)	(22,321)
Cash flows from financing activities			
Intercompany borrowings		5,515	12,000
Net cash from financing activities		5,515	12,000
Net decrease in cash and cash equivalents		(83)	(1,555)
Cash and cash equivalents at beginning of year		4,569	6,124
Cash and cash equivalents at end of year		4,486	4,569
Cash and cash equivalents comprise:			
Cash at bank and in hand		4,486	4,569
Bank overdrafts		-	-
		4,486	4,569

Non cash flow fixed asset additions of £949,575 (2015: £3,797,732) have been accrued in the year.

The notes on page 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Company balance sheet at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Investments	11		17,870		17,870
Current assets					
Debtors	12	20,082		17,304	
Cash at bank and in hand		63		57	
		<u>20,145</u>		<u>17,361</u>	
Creditors: amounts falling due within one year	13	<u>23,242</u>		<u>20,431</u>	
Net current liabilities			(3,097)		(3,070)
Total assets less current liabilities			<u>14,773</u>		<u>14,800</u>
Creditors: amounts falling due after more than one year	14		-		-
Net assets			<u>14,773</u>		<u>14,800</u>
Capital and reserves					
Called up share capital	18		14,721		14,721
Profit and loss account			52		79
			<u>14,773</u>		<u>14,800</u>

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 loss for the financial year of £25,947 (2015: £51,572).

The financial statements were approved by the Board of Directors and authorised for issue on 11th April 2017.



T W Butler
Director

The notes on pages 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Company statement of changes in equity for the year ended 31 December 2016

	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total equity 2016 £'000	Share capital 2015 £'000	Profit and loss account 2015 £'000	Total Equity 2015 £'000
1 January	14,721	79	14,800	14,721	130	14,851
Comprehensive loss for the year	-	(27)	(27)	-	(51)	(51)
Total comprehensive loss for the year	-	(27)	(27)	-	(51)	(51)
Contributions by and distributions to owners						
Dividends	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-	-
31 December	14,721	52	14,773	14,721	79	14,800

The notes on pages 14 to 26 form part of these financial statements.

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2016

1 Accounting policies

ESP Utilities Group Ltd is a private limited company incorporated in England & Wales under the Companies Act 2006.

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 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 period 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 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 2016 the Group had net current liabilities of £141,639,000 (2015: £136,472,000). The Group is dependent for its working capital on funds provided to it by fellow Group companies. A fellow Group company, Zoom Gas Pipelines Limited, has confirmed it will not seek repayment of its loan of £123,475,000 until the company has sufficient funds available in order to continue trading and meet its liabilities as they fall due in the reasonable foreseeable future. As with any Group placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The directors have considered and reviewed projections and cash flow forecasts that cover the period to 12 months from the date of approval of these financial statements. Based on this, the 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.

The following principal accounting policies have been applied:

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (*continued*)

1 Accounting policies (*continued*)

Basis of consolidation

The consolidated financial statements present the results of ESP Utilities Group 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. In the statement of financial position, 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. Electricity income is recognised on the basis of actual or estimated consumption in the financial period. Turnover arises solely within the United Kingdom.

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 fixed assets to their estimated residual value by equal instalments over their estimated useful lives as follows:

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

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 that reduces the depreciation charge to the statement of comprehensive income over the useful life of the related assets.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

Impairment of fixed assets and cost of investment

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

Investments

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

Pension scheme

The Group operates a defined contributions 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.

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 profit or loss account 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.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the year end.

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

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; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.
- 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 that have enacted or substantively enacted by the reporting date.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Reserves

The Group and Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of shares issued.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

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

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

- Determine whether there are indicators of impairment of the Group's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Tangible fixed assets are depreciated over their useful lives taking into account residual values where appropriate. 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 and industry trends are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

3 Analysis of Turnover

	2016 £'000	2015 £'000
Analysis by class of business:		
Gas transportation	22,034	20,293
Gas metering	8,954	8,226
Electricity distribution	14,756	9,681
	<u>45,744</u>	<u>38,200</u>

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

4 Operating profit

	2016 £'000	2015 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	6,079	6,197
Release of deferred income on third party contributions	(659)	(640)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	5	5
Fees payable to the Company's auditor and its associates for other services to the Group:		
- The audit of the Company's subsidiaries pursuant to legislation	84	74
- Other services	3	3
Operating lease – land and buildings	140	95
	<u>7</u>	<u>1</u>

5 Employees

	2016 £'000	2015 £'000
Staff costs (including directors) consist of:		
Wages and salaries	2,615	2,375
Social security costs	298	278
Cost of defined contribution pension scheme	377	340
	<u>3,290</u>	<u>2,993</u>

The average number of employees for the Group during the year was as follows:

	2016 Number	2015 Number
Gas	45	39
Electricity	19	16
	<u>64</u>	<u>55</u>
Company		

The Company does not directly employ any individuals. The Company is however charged a management fee from other Group companies in respect of services provided to this Company.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

6 Directors' remuneration

	2016 £'000	2015 £'000
Directors' emoluments	584	604
Group contributions to money purchase pension schemes	234	215

There were seven paid directors during the period (2015: six). The remuneration of the highest paid director who served during the period was as follows:

	2016 £'000	2015 £'000
Directors' emoluments	134	136
Group contributions to money purchase pension schemes	52	41

Company

The directors received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2016 (2015: nil).

7 Interest payable and similar charges

	2016 £'000	2015 £'000
Group loan note interest	1,793	624
Group loan interest	9,286	9,977
	<u>11,079</u>	<u>10,601</u>

8 Taxation on profit on ordinary activities

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
<i>UK corporation tax</i>				
Current tax on profits of the year		610		-
Adjustment in respect of previous periods		69		-
Total current tax		<u>679</u>		<u>-</u>
<i>Deferred tax</i>				
Deferred tax current period	-		323	
Effect of changes in tax rate	(573)		(1,072)	
Deferred tax prior period	-		-	
		<u>(573)</u>		<u>(749)</u>
Total tax charge / (credit)		<u>106</u>		<u>(749)</u>

For further information on deferred tax balances see note 16.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

8 Taxation on profit on ordinary activities (continued)

Tax reconciliation

	2016 £'000	2015 £'000
Profit on ordinary activity before tax	11,600	8,456
Current tax at 20% (2015: 20.25%)	2,320	1,712
Effects of:		
Expenses not tax deductible	(47)	3
Group relief surrendered for nil consideration	(1,594)	(1,392)
Effect of difference in deferred tax rates	(573)	(1,072)
	106	(749)

9 Parent company loss 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 loss for the financial year of £25,947 (2015: £51,572).

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

10 Tangible fixed assets

Group	Electricity & Gas Networks £'000	Meters £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
<i>Cost or valuation</i>					
At 1 January 2016	218,847	29,294	1,874	344	250,359
Additions	21,034	2,306	594	211	24,145
Disposals	(146)	(415)	(254)	(66)	(881)
At 31 December 2016	239,735	31,185	2,214	489	273,623
<i>Depreciation</i>					
At 1 January 2016	27,713	9,676	1,535	97	39,021
Provision for year	4,242	1,490	243	104	6,079
Disposals	(15)	(415)	(254)	(51)	(735)
At 31 December 2016	31,940	10,751	1,524	150	44,365
<i>Net book value</i>					
At 31 December 2016	207,795	20,434	690	339	229,258
At 31 December 2015	191,134	19,618	339	247	211,338

11 Fixed asset investments

Company

	Group undertakings £'000	Total £'000
<i>Cost</i>		
At 1 January 2016 & at 31 December 2016	17,870	17,870

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

11 Fixed asset investments (continued)

At 31 December 2016 the subsidiary companies which operate and are registered in England & Wales together with their activities are as follows:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
<i>E.S. Pipelines Limited*</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Connections Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Networks Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Pipelines Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Electricity Limited*</i>	<i>England & Wales</i>	<i>100%</i>	<i>Independent distribution network operator</i>

* Directly owned

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

12 Debtors

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade debtors	5,289	3,840	-	-
Amounts owed by Group undertakings	-	-	18,672	15,914
Other debtors	56	46	1,037	1,011
Prepayments and accrued income	1,854	630	3	23
Deposits	3,122	2,936	-	-
Group relief recoverable from fellow subsidiaries	-	-	370	356
	10,321	7,452	20,082	17,304

All debtors are due within one year.

13 Creditors: amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade creditors	11,622	10,713	3	-
Loans due to Group undertakings	123,475	119,917	944	945
Loan notes due to Group undertakings	13,054	13,060	-	-
Other amounts owed to Group undertakings	-	-	22,281	19,474
Taxation and social security	133	118	-	-
Other creditors	802	656	-	-
Accruals and deferred income	7,360	4,029	14	12
	156,446	148,493	23,242	20,431

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

13 Creditors: amounts falling due within one year (continued)

Loans due to Group undertakings are currently attracting interest at a weighted average rate of 7.3% (2015: 8.0%) above LIBOR.

The loan notes due are repayable in 2020 and attract an interest rate of 13.58% per annum. Interest to date has been rolled into the principal amount.

14 Creditors: amounts falling due after more than one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Deferred income	33,032	31,879	-	-
	33,032	31,879	-	-

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

The analysis of loans due to Group undertakings is as follows:

Group	2016 £'000	2015 £'000
In one year or less, or on demand	136,529	132,977
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	-	-
	136,529	132,977
Company	2016 £'000	2015 £'000
In one year or less, or on demand	22,281	19,474
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	-	-
	22,281	19,474

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (*continued*)

15 Financial instruments

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

	Group 2016 £'000	Group 2015 £'000
Financial assets		
<i>measured at amortised cost:</i>		
Cash at bank	4,486	4,569
Trade debtors	5,289	3,840
Other debtors	56	46
Deposits	3,122	2,936
	<hr/>	<hr/>
Financial liabilities		
<i>measured at amortised cost:</i>		
Trade creditors	11,622	10,713
Loans due to Group undertakings	123,475	119,917
Loan notes due to Group undertakings	13,054	13,060
Other creditors	802	656
Accrual	6,697	3,488
	<hr/>	<hr/>

16 Provisions for liabilities

Group	Deferred taxation 2016 £'000	Deferred taxation 2015 £'000
At 1 January	9,647	10,396
Charged/(credited) to profit or loss	106	(749)
	<hr/>	<hr/>
At 31 December	9,753	9,647
	<hr/>	<hr/>

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

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (*continued*)

16 Provisions for liabilities (*continued*)

Deferred tax liabilities - Group

	31 December 2016 £'000	31 December 2015 £'000
Difference between accumulated depreciation and amortisation and capital allowances	9,775	9,670
Other timing differences	(22)	(23)
	<u>9,753</u>	<u>9,647</u>

17 Pensions

Defined contribution scheme

The amount recognised in the statement of comprehensive income account as an expense in relation to the group's defined contribution schemes is £376,812 (2015: £339,804). There were no amounts owing at the year end.

18 Share capital

	2016 £'000	2015 £'000
<i>Authorised</i> 20,000,000 ordinary shares of £1 each	20,000	20,000
<i>Allotted, called up and fully paid</i> 14,720,985 ordinary shares of £1 each	<u>14,721</u>	<u>14,721</u>

19 Commitments under operating leases

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

	2016 £'000	2015 £'000
Not later than 1 year	216	95
Later than 1 year and not later than 5 years	928	95
Greater than 5 years	971	-
	<u>2,115</u>	<u>190</u>

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

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

20 Capital commitments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Contracted but not provided for	68,783	64,753	-	-

21 Related party disclosures

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

The largest group in which the results of the Group are consolidated is that headed by Zoom Holding Limited. A copy of these consolidated financial statements is available from Companies House.

22 Post Balance Sheet Events

On 22nd of December 2016 EISER Finance Limited announced that it had agreed a sale of a portfolio of assets by the EISER Global Infrastructure Fund to a fund managed by 3i Investments plc. This will include ESP Utilities Group Limited and all its underlying subsidiaries. The sale is subject to certain conditions usual for a transaction of its type and it is anticipated that it would complete in the first half of 2017.

The directors see no change to the group's existing business model or the activities of the group and note that this event does not impact the figures in the accounts as at 31st December 2016.