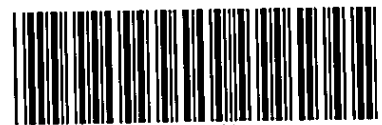


ESP Connections Limited

**Directors' report and financial
statements**

Registered number 3234745
year ended 31 December 2008

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Contents

Directors' report	1
Statement of directors' responsibilities in respect of the directors' report and the financial statements	3
Independent auditor's report	4
Profit and loss account	6
Balance sheet	7
Notes forming part of the financial statements	8

Directors

R Wallace
J Hector
V Spiers
N Clark
M Carr

Secretary and registered office

Beach Secretaries Limited, Hazeldean, Station Road, Leatherhead, Surrey KT22 7AA

Company number

3234745

Auditors

BDO Stoy Hayward LLP
Emerald House
East Street
Epsom
KT17 1HS

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activity of the Company is that of transportation of gas and metering services to gas shippers throughout mainland UK. There have been no changes in the Company's activities in the period under review.

Review of the business

The profit and loss account is set out on page 6 and shows turnover for the period of £10,864,000 (2007 £10,456,000) and profit for the period of £4,434,000 (2007 £3,308,000).

The Company continues to rollout its prepaid order book obtained in 2005 from British Gas New Housing Connections Ltd with a further two and half years to complete.

No dividend was paid during the period.

Principal risks and uncertainties

The independent Gas Transporter business is dominated by three major competitors including the Company. The ownership and operation of gas pipelines represents approximately 76% of the Companies income. The Office of Gas and Electricity Markets (Ofgem) regulates the activities of the Company, including the transportation tariffs that the Company charges. In 2004 Ofgem introduced the Relative Price Control (RPC) mechanism. The purpose of RPC is to keep parity between the charges levied by independent Gas Transporters, including the Companies, and the operators of the Gas Distribution Networks. RPC allows the Company to increase prices partly in line with inflation. Therefore the Companies income will vary in accordance with Retail Price Index (RPI). The Company also has a number of gas connections built prior to the introduction of RPC and the transportation tariffs allowed for these connections are set according to methodologies in place at the time of installation.

The Company also operates and maintains meters connected to its gas pipelines. Metering income represents approximately 24% of the Companies income. Since 2004 the metering market in the UK has been open to competition and there is a potential risk that meters could be replaced prematurely resulting in lost income. The Directors however are seeking to put in place measures to mitigate this risk.

Financial instruments

The Company holds financial instruments to finance its operations. Operations are financed by a mixture of retained profits and parent company loans. The Company has £28,461,429 of debt outstanding with its Group companies. 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.

Trade debtors and trade creditors arise directly from the Company's operations.

The Company does not enter into any hedging arrangements.

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the year were as follows:

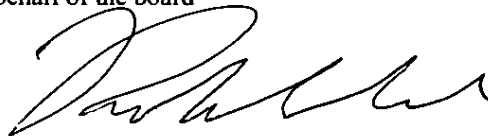
R Wallace
J Hector
V Spiers
M Carr
N Clark

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 Company'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 Company's auditors are aware of that information.

Auditors

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

For and on behalf of the board



RW Wallace

Director

Date: 24th April 2009

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Independent Auditor's Report to the Shareholders of ESP Connections Limited

We have audited the financial statements of ESP Connections Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditor's Report to the Shareholders of ESP Connections Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Epsom, Surrey

Date: 24th April 2009

Profit and loss account
for the year to 31 December 2008

	<i>Note</i>	Year ended 31 December 2008	Year ended 31 December 2007
		£'000	£'000
Turnover	1	10,864	10,456
Cost of sales		(1,973)	(1,814)
Gross profit		8,891	8,642
Administrative expenses		(2,067)	(1,929)
Operating profit		6,824	6,713
Interest payable and similar charges	3	(2,228)	(2,451)
Other interest receivable and similar income	4	47	64
Profit on ordinary activities before taxation	2	4,643	4,326
Tax on profit on ordinary activities	7	(209)	(1,018)
Profit on ordinary activities after taxation	15	4,434	3,308

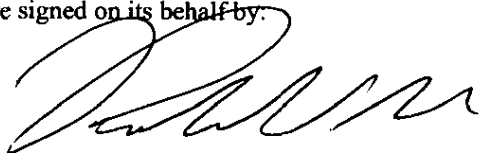
The operating profit of the company arose solely from continuing activities. There are no recognised gains or losses other than the profit for the period and preceding period.

The notes on pages 8 to 14 form part of the financial statements

Balance sheet
at 31 December 2008

	<i>Note</i>	31 December 2008	31 December 2007
		£'000	£'000
Fixed assets			
Tangible assets	8	53,097	53,831
		<hr/>	<hr/>
Current assets			
Debtors	9	12,269	11,997
Cash at bank and in hand		1,185	1,153
		<hr/>	<hr/>
Creditors: amounts falling due within one year	10	13,454 (33,267)	13,150 (37,056)
		<hr/>	<hr/>
Net current liabilities		(19,813)	(23,906)
		<hr/>	<hr/>
Total assets less current liabilities		33,284	29,925
Creditors: amounts falling due after one year	11	(14,928)	(15,065)
Provision for liabilities and charges	12	(3,023)	(3,961)
		<hr/>	<hr/>
Net assets		15,333	10,899
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	15,333	10,899
		<hr/>	<hr/>
Shareholders' funds	15	15,333	10,899
		<hr/>	<hr/>

These financial statements were approved by the board of directors and authorised for issue on the 24th April 2009 and were signed on its behalf by:



R W Wallace
Director

The notes on pages 8 to 14 form part of the financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by ESP Gas Group Limited the company has taken advantage of the exemptions contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of ESP Gas Group Limited, within which this company is included, are publicly available as described in note 17.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £19,813,000. The company is dependent for its working capital on funds provided to it by a fellow group undertaking. This group undertaking has confirmed it will not seek repayment of amounts outstanding until there are sufficient funds available for the company to be able to make such a repayment. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

As with any company 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.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of public gas transport to customers during the period.

Fixed assets and depreciation

Freehold land is not depreciated. Depreciation is calculated so as to write off the cost of other fixed assets to their estimated residual value by equal instalments over their estimated useful lives as follows:

Fixtures, fittings, tools & equipment	- 4 years
Plant and machinery	- 60 years
Meters	- 20 years

Notes (continued)

Third party contributions

Third party contributions received relate specifically to capital expenditure on the pipelines and are treated as deferred income, which is then credited to the profit and loss account over the related assets' useful life.

Taxation

Corporation tax payable is provided on taxable profit at the current rate. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

2 Profit on ordinary activities before taxation

	Year ended 31 December 2008	Year ended 31 December 2007
	£'000	£'000
<i>Profit on ordinary activities before taxation is stated after charging /(crediting):</i>		
Auditors' remuneration – audit	20	26
Depreciation	1,464	1,434
Third party contributions release	(283)	(280)
Loss on disposal of fixed assets	-	-
	<u> </u>	<u> </u>

3 Interest payable and similar charges

	Year ended 31 December 2008	Year ended 31 December 2007
	£'000	£'000
Interest payable to parent company	2,228	2,451
	<u> </u>	<u> </u>
	2,228	2,451
	<u> </u>	<u> </u>

4 Other interest receivable and similar income

	Year ended 31 December 2008	Year ended 31 December 2007
	£'000	£'000
Bank interest	47	64
	<u> </u>	<u> </u>

Notes (continued)

5 Remuneration of directors

The directors received no remuneration or fees in respect of their services to the company for the period ended 31 December 2008 (2007: £nil).

6 Staff numbers and costs

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.

7 Taxation

Analysis of charge in period:

	Year ended 31 December 2008		Year ended 31 December 2007	
	£'000	£'000	£'000	£'000
<i>UK corporation tax</i>				
Current tax on income in period	1,147		1,082	
Total current tax		1,147		1,082
Deferred tax (see note 12) – current		(331)		219
Deferred tax – effect of reduction in tax rate to 28%		(607)		(283)
Adjustment in respect of prior periods		-		-
Tax on profit on ordinary activities		209		1,018

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower (2007: lower) than the standard rate of corporation tax in the UK of 28.5%. The differences are explained below:

	Year ended 31 December 2008	Year ended 31 December 2007
	Total	Total
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,643	4,326
Current tax at 28.5% (2007: 30%)	1,323	1,298
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14	3
Capital allowances for period in excess of depreciation	336	(219)
Loss surrendered as group relief	(526)	-
Total current tax (see above)	1,147	1,082

Notes (continued)

8 Fixed assets

	Mains services	Meters	Fixtures, fittings, tools & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2008	52,499	12,896	49	65,444
Additions	574	156	-	730
Disposals				
At 31 December 2008	53,073	13,052	49	66,174
Depreciation				
At 1 January 2008	9,265	2,318	30	11,613
Charge for period	803	649	12	1,464
Disposals				
At 31 December 2008	10,068	2,967	42	13,077
Net book value				
At 31 December 2008	43,005	10,085	7	53,097
At 31 December 2007	43,234	10,578	19	53,831

Notes (continued)

9 Debtors

	31 December 2008 £'000	31 December 2007 £'000
Trade debtors	1,248	1,091
Amounts owed by group undertakings	8,056	6,192
Other debtors	30	-
Prepayments and accrued income	2,935	4,714
	<u>12,269</u>	<u>11,997</u>

10 Creditors: amounts falling due within one year

	31 December 2008 £'000	31 December 2007 £'000
Trade creditors	78	114
Other creditors	51	46
Group relief payable to fellow subsidiaries	3,863	2,717
Other taxation and social security	495	508
Amounts owed to group undertakings	28,461	33,266
Accruals and deferred income	319	405
	<u>33,267</u>	<u>37,056</u>

11 Creditors: amounts falling due after more than one year

	31 December 2008 £'000	31 December 2007 £'000
Deferred income	<u>14,928</u>	<u>15,065</u>

Notes (continued)

12 Provisions for liabilities and charges

	Deferred taxation £'000
At beginning of period	3,961
Charge to the profit and loss for the period	(938)
At end of period	<u>3,023</u>

The elements of deferred taxation are as follows:

	31 December 2008 £'000	31 December 2007 £'000
Difference between accumulated depreciation and amortisation and capital allowances	3,044	3,982
Other timing differences	(21)	(21)
	<u>3,023</u>	<u>3,961</u>

13 Share capital

	31 December 2008 £'000	31 December 2007 £'000
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	<u>1</u>	<u>1</u>
	31 December 2008 £	31 December 2007 £
<i>Allotted, called up and fully paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

14 Profit and loss account

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Profit for the financial period	4,434	3,308
Profit and loss account at the beginning of the period	10,899	7,591
Profit and loss account at the end of period	<u>15,333</u>	<u>10,899</u>

Notes (continued)

15 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Profit for the financial period	4,434	3,308
Opening shareholders' funds	10,899	7,591
	<hr/>	<hr/>
Closing shareholders' funds	15,333	10,899
	<hr/>	<hr/>

16 Capital commitments

	31 December 2008 £'000	31 December 2007 £'000
Capital commitments authorised by the directors are:		
Contracted	-	-
	<hr/>	<hr/>

17 Immediate and ultimate holding company and parent undertaking of larger group

The company's immediate holding company is Kellen Venture Limited, a company registered in England. The company's ultimate holding company became Zoom Holding Limited, a company registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Zoom Holding Limited. The smallest group in which the results of the company are consolidated is that headed by ESP Gas Group Limited. Copies of these consolidated financial statements are available from Companies House.