ESP Connections Limited

Directors' report and financial statements

Registered number 3234745

year ended 31 December 2012

Contents

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 LLP
125 Colmore Row
Birmingham
B3 3SD

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

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 £12,015,000 (2011 £11,340,000) and profit for the period of £5,595,000 (2011 £6,464,000)

The Company has now completed the rollout of its prepaid order book obtained in 2005 from British Gas New Housing Connections Ltd

Dividends of £5,328,061 were declared and paid during the year (2011 £4,615,670)

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 71% of the Company's 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 Company, and the operators of the Gas Distribution Networks RPC allows the Company to increase prices partly in line with the Retail Price Index (RPI) therefore the Companies income will vary in accordance with 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 29% of the company's 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 £40,127,000 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

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting

For and on behalf of the board

RW Wallace
Director
Date 24th April 2013

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 regulations.

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on 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

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 2012 which comprise the profit and loss account, the balance sheet 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)

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 to 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 Auditing Practices Board's (APB'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 APBs website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its 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 the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

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

BDO LLP

Thomas Lawton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom
Date 25th April 2013

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

Profit and loss account
for the year to 31 December 2012

	Note	**Year ended 31 December 2012**	**Year ended 31 December 2011**
		£'000	**£'000**
Turnover	1	**12,015**	11,340
Cost of sales		**(2,391)**	(2,272)
Gross profit		**9,624**	9,068
Administrative expenses		**(1,849)**	(1,635)
Operating profit		**7,775**	7,433
Interest payable and similar charges	*3*	**(1,854)**	(1,010)
Other interest receivable and similar income	*4*	**-**	-
Profit on ordinary activities before taxation	*2*	**5,921**	6,423
Tax (charge) /credit on profit on ordinary activities	*7*	**(326)**	41
Profit on ordinary activities after taxation	*15*	**5,595**	6,464

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 2012

	Note	31 December 2012	31 December 2011
		£'000	**£'000**
Fixed assets			
Tangible assets	*9*	**49,086**	50,285
Current assets			
Debtors	*10*	**20,301**	18,496
Cash at bank and in hand		**1,330**	1,350
		21,631	19,846
Creditors: amounts falling due within one year	*11*	**(7,893)**	(7,142)
Net current assets		13,738	12,704
Total assets less current liabilities		**62,824**	62,989
Creditors: amounts falling due after one year	*12*	**(54,334)**	(54,276)
Provision for liabilities and charges	*13*	**(1,646)**	(2,136)
Net assets		**6,844**	6,577
Capital and reserves			
Called up share capital	*14*	**-**	-
Profit and loss account	*15*	**6,844**	6,577
Shareholders' funds	*16*	**6,844**	6,577

These financial statements were approved by the board of directors and authorised for issue on the 24th April 2013 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 at least 90% of the voting rights in the company are controlled within a group headed by ESP Utilities Group Ltd and the Company is included in 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 Utilities 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 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 gas transportation and measurement for gas suppliers 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 Turnover arises solely within the United Kingdom

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 - 8 years
Networks	- 60 years
Meters	- 20 years
Prepayment meters	- 10 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

Dividends

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

2 Profit on ordinary activities before taxation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before taxation is stated after charging /(crediting)		
Auditors' remuneration – audit	**16**	16
Depreciation	**1,679**	1,613
Third party contributions release	**(290)**	(286)

3 Interest payable and similar charges

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest payable to parent company	**1,854**	1,010
	1,854	1,010

4 Other interest receivable and similar income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Bank interest	-	-

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 2012 *(2011 £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 2012		Year ended 31 December 2011	
	£'000	£'000	£'000	£'000
UK corporation tax				
Current tax on income in period	816		421	
Adjustment for Prior Years	-		-	
Total current tax		816		421
Deferred tax – current		(340)		(352)
Deferred tax - effect of reduction in tax rate to 23% (2011 25%)		(150)		(177)
Adjustment in respect of prior periods		-		67
Tax on profit on ordinary activities		326		(41)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2011 lower)* than the standard rate of corporation tax in the UK of 24 5%. (2011 26 5%) The differences are explained below

	Year ended 31 December 2012 Total	Year ended 31 December 2011 Total
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	5,921	6,423
Current tax at 24 5% *(2011 26 5%)*	1,451	1,702
Effects of		
Expenses not deductible for tax purposes	-	1
Depreciation in excess of capital allowances	340	352
Loss surrendered as group relief	(975)	(1,634)
Total current tax (see above)	816	421

Notes *(continued)*

8 Dividend

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Ordinary shares		
Paid £2,664,030 (2011 - £2,307,500) per share	5,328	4,615

9 Tangible assets

	Networks	Meters	Fixtures, fittings, tools & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012	54,664	13,239	49	67,952
Additions	258	222	-	480
Disposals	-	(152)	-	(152)
At 31 December 2012	**54,922**	**13,309**	**49**	**68,280**
Depreciation				
At 1 January 2012	12,753	4,865	49	17,667
Charge for period	928	751	-	1,679
Disposals	-	(152)	-	(152)
At 31 December 2012	**13,681**	**5,464**	**49**	**19,194**
Net book value				
At 31 December 2012	**41,241**	**7,845**	**-**	**49,086**
At 31 December 2011	41,911	8,374	-	50,285

Notes *(continued)*

10 Debtors

	31 December 2012 £'000	31 December 2011 £'000
Trade debtors	1,320	1,189
Amounts owed by group undertakings	18,970	17,296
Other debtors	10	9
Prepayments and accrued income	1	2
	20,301	18,496

11 Creditors amounts falling due within one year

	31 December 2012 £'000	31 December 2011 £'000
Trade creditors	120	114
Other creditors	275	298
Group relief payable to fellow subsidiaries	7,053	6,236
Accruals and deferred income	445	494
	7,893	7,142

12 Creditors amounts falling due after more than one year

	31 December 2012 £'000	31 December 2011 £'000
Deferred income	14,207	14,406
Amounts owed to group undertakings	40,127	39,870
	54,334	54,276

	31 December 2012 £	31 December 2011 £
Analysis of loans due to group undertaking		
Loan due to group undertakings can be analysed as falling due		
In one year or less, or on demand	-	-
Between one and two years	-	-
Between two and five years	40,127	39,870
	40,127	39,870

Notes *(continued)*

Interest is payable on the above amounts at the following rates	£	£
Interest charged at 3 5% above Libor (2011 0 5%) per annum	26,719	26,548
Interest charged at 3 5% above Libor (2011 2 25%) per annum	13,408	13,322
	40,127	39,870

13 Provisions for liabilities and charges

	Deferred taxation £'000
At beginning of period	2,136
Credit to the profit and loss for the period	(490)
At end of period	1,646

The elements of deferred taxation are as follows

	31 December 2012 £'000	**31 December 2011 £'000**
Difference between accumulated depreciation and amortisation and capital allowances	1,663	2,154
Other timing differences	(17)	(18)
	1,646	2,136

14 Share capital

	31 December 2012 £'000	**31 December 2011 £'000**
Authorised		
1,000 Ordinary shares of £1 each	1	1

	31 December 2012 £	**31 December 2011 £**
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

Notes *(continued)*

15 Profit and loss account

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit for the financial period	5,595	6,464
Profit and loss account at the beginning of the period	6,577	4,729
Dividend	(5,328)	(4,616)
Profit and loss account at the end of period	6,844	6,577

16 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit for the financial period	5,595	6,464
Opening shareholders' funds	6,577	4,729
Dividend	(5,328)	(4,616)
Closing shareholders' funds	6,844	6,577

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 is 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 Utilities Group Limited Copies of these consolidated financial statements are available from Companies House