ESP Connections Limited

Directors' report and financial statements

Registered number 3234745

year ended 31 December 2016

Contents

Directors

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

Secretary and registered office

Beach Secretaries Limited, Bluebird House, Mole Business Park, Leatherhead, Surrey KT22 7BA

Company number

3234745

Auditors

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

Strategic report

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 statement of comprehensive income is set out on page 6 and shows turnover for the period of £12,490,000 (2015: £12,755,000) and profit for the period of £4,937,000 (2015: £5,935,000).

The number of installed connections as at the end of the year was 168,278 (2015: 168,367). The Company's order book is substantially complete and no new business is envisaged going forward as all new gas connections are installed through E S Pipelines Limited, a group company.

Principal risks and uncertainties

The Independent Gas Transporter business is dominated by three main competitors including the Company. The ownership and operation of gas pipelines represents approximately 68% 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 Company's 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 32% 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.

The directors believe it appropriate to present the accounts on a going concern basis as set out in note 1.

For and on behalf of the Board

T W Butler
Director

Date: 11th April 2017

Directors' report

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

Dividends

Dividends of £Nil were declared and paid during the year (2015: £5,500,000).

Directors

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

R Wallace	
J Hector	
V Spiers	
N Clark	
T W Butler	
S Williams	(appointed: 16 May 2016)
S Springett	(resigned: 9 November 2016)
M Carr	(resigned: 3 June 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 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.

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 £41,792,000 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.

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

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

Directors' report *(continued)*

Post balance sheet event

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

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

T W Butler
Director

Date: 11th April 2017

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, 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

We have audited the financial statements of ESP Connections Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, the balance sheet, statement of changes in equity 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 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 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 Company's affairs as at 31 December 2016 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, based on the work undertaken in the course of the audit:

- the information given in the strategic report and 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.

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 Company and its environment obtained in the cause of the audit, we have not identified material misstatements 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, 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

Anna Draper (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
Date: 13/4/17

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

Statement of comprehensive income
for the year to 31 December 2016

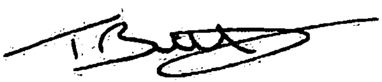
	Note	Year ended 31 December 2016	Year ended 31 December 2015
		£'000	£'000
Turnover	3	12,490	12,755
Cost of sales		(2,560)	(2,461)
Gross profit		9,930	10,294
Administrative expenses		(1,598)	(1,514)
Operating profit	4	8,332	8,780
Interest payable and similar charges	5	(3,811)	(2,404)
Profit on ordinary activities before taxation		4,521	6,376
Tax charge/(credit) on profit on ordinary activities	8	416	(441)
Profit on ordinary activities after taxation and total comprehensive income for the year		4,937	5,935

The notes on pages 10 to 18 form part of the financial statements

Balance sheet
at 31 December 2016

	Note	**31 December 2016**	**31 December 2015**
		£'000	**£'000**
Fixed assets			
Tangible assets	*10*	**43,441**	44,987
Current assets			
Debtors	*11*	**34,833**	27,760
Cash at bank and in hand		**1,223**	3,374
		36,056	31,134
Creditors: amounts falling due within one year	*12*	**(50,576)**	(51,690)
Net current liabilities		**(14,520)**	(20,556)
Total assets less current liabilities		**28,921**	24,431
Creditors: amounts falling due after one year	*13*	**(13,274)**	(13,558)
Provision for liabilities and charges	*14*	**(1,370)**	(1,533)
Net assets		**14,277**	9,340
Capital and reserves			
Called up share capital	*15*	**-**	-
Profit and loss account		**14,277**	9,340
		14,277	9,340

These financial statements were approved by the board of directors and authorised for issue on the 11th April 2017 and were signed on its behalf by:



T W Butler
Director

The notes on pages 10 to 18 form part of the financial statements

Statement of changes in equity
for the year to 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	-	9,340	9,340	-	8,905	8,905
Comprehensive income for the year						
Profit for the year	-	4,937	4,937	-	5,935	5,935
Total comprehensive income for the year	-	4,937	4,937	-	5,935	5,935
Contributions by and distributions to owners						
Dividends	-		0	-	(5,500)	(5,500)
Total contributions by and distributions to owners	-		0	-	(5,500)	(5,500)
31 December	-	14,277	14,277	-	9,340	9,340

The notes on pages 10 to 18 form part of the financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

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.

ESP Connections Limited is a private limited company incorporated in England & Wales under the Companies Act 2006.

Basis of preparation

Disclosure exemptions

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

- No cash flow statement has been presented for the Company;
- Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included within E S Pipelines Limited as a whole.

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding that at 31 December 2016 the Company had net current liabilities of £14,520,000 (2015: £20,556,000). 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.

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:

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 Company'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.

Notes *(continued)*

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
Meters	20 years
Prepayment meters	10 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.

Impairment of fixed assets

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

Finance costs

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

Current and deferred taxation

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

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

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

- The recognition of deferred tax assets is limited to the extent that 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.

Notes *(continued)*

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 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.

Dividends

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

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

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

- Determine whether there are indicators of impairment of the Company's tangible assets. 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.

3 Analysis of Turnover

	Year ended 31 December 2016	**Year ended 31 December 2015**
	£'000	**£'000**
Analysis by class of business:		
Gas transportation	**8,460**	8,736
Gas metering	**4,030**	4,019
	12,490	12,755

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

Notes *(continued)*

4 Operating Profit

	Year ended 31 December 2016	Year ended 31 December 2015
	£'000	£'000
This is arrived at after charging/(crediting):		
Auditors' remuneration – audit	**21**	18
Depreciation	**1,690**	1,699
Third party contributions release	**(294)**	(293)

5 Interest payable and similar charges

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest payable to parent company	**3,811**	2,404
	3,811	2,404

6 Remuneration of directors

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

7 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.

Notes *(continued)*

8 Taxation

Analysis of charge in period:

	Year ended 31 December 2016		Year ended 31 December 2015	
	£'000	£'000	£'000	£'000
UK corporation tax				
Current tax on income in period	(253)		228	
Adjustment for Prior Years	-		-	
Total current tax		(253)		228
Deferred tax – current (see note 14)		(82)		388
Deferred tax – effect of change in tax rate		(81)		(170)
Adjustment in respect of prior periods		-		(5)
Tax on profit on ordinary activities		(416)		441

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2015: lower)* than the standard rate of corporation tax in the UK of 20%. (2015: 20.25%) The differences are explained below:

	Year ended 31 December 2016 Total	Year ended 31 December 2015 Total
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	4,521	6,376
Current tax at 20% *(2015:20.25%)*	904	1,291
Effects of:		
Expenses not deductible for tax purposes	-	-
Effect of change in tax rates	(72)	(170)
Loss surrendered as group relief	(1,248)	(675)
Adjustment in respect of prior periods	-	(5)
Total current tax (see above)	(416)	441

9 Dividend

	Year ended 31 December 2016	Year ended 31 December 2015
	£'000	£'000
Ordinary shares		
Paid £nil (2015 - £2,750,000) per share	-	5,500

Notes *(continued)*

10 Tangible assets

	Networks	Meters	Fixtures, fittings, tools & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2016	55,599	13,195	49	68,843
Additions	132	15	-	147
Disposals	-	(146)	-	(146)
At 31 December 2016	**55,731**	**13,064**	**49**	**68,844**
Depreciation				
At 1 January 2016	16,498	7,309	49	23,856
Charge for period	1,145	548	-	1,693
Disposals	-	(146)	-	(146)
At 31 December 2016	**17,643**	**7,711**	**49**	**25,403**
Net book value				
At 31 December 2016	**38,088**	**5,353**	**-**	**43,441**
At 31 December 2015	39,101	5,886	-	44,987

11 Debtors

	31 December 2016	31 December 2015
	£'000	£'000
Trade debtors	**1,266**	1,260
Amounts owed by group undertakings	**32,724**	25,665
Other debtors	**32**	24
Prepayments and accrued income	**155**	155
Deposits	**656**	656
	34,833	27,760

Notes *(continued)*

12 Creditors: amounts falling due within one year

	31 December 2016 £'000	31 December 2015 £'000
Trade creditors	**191**	151
Other creditors	**231**	270
Group relief payable to fellow subsidiaries	**7,752**	8,004
Amounts owed to group undertakings	**41,792**	42,814
Accruals and deferred income	**610**	451
	50,576	51,690

Amount owed to group undertakings bear interest at 3.5% above Libor and is repayable on demand.

13 Creditors: amounts falling due after more than one year

	31 December 2016 £'000	31 December 2015 £'000
Deferred income	**13,274**	13,558
	13,274	13,558

Analysis of loans due to group undertaking:	31 December 2016 £'000	31 December 2015 £'000
Loan due to group undertakings can be analysed as falling due:		
In one year or less, or on demand	**41,792**	42,814
Between one and two years	-	-
Between two and five years	-	-
	41,792	42,814

Notes *(continued)*

14 Provisions for liabilities and charges

	Deferred taxation £'000
At beginning of period	**1,533**
Charge to the profit and loss for the period	**(163)**
At end of period	**1,370**

The elements of deferred taxation are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**1,379**	1,542
Other timing differences	**(9)**	(9)
	1,370	1,533

15 Share capital

	31 December 2016 £'000	31 December 2015 £'000
Authorised		
1,000 Ordinary shares of £1 each	**1**	1

	31 December 2016 £	31 December 2015 £
Allotted, called up and fully paid		
2 ordinary shares of £1 each	**2**	2

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

The Company's immediate holding company is E. S. Pipelines 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.

Notes *(continued)*

17 Post Balance Sheet event

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.