E.S. Pipelines Limited

Directors' report and financial statements

Registered number 3822878

31 March 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended to 31 March 2004.

Principal activities

The company is engaged in the business of public gas transport.

Business Review

On 28th October 2003 the company acquired 100% of the share capital of United Utilities Gas Networks Limited and United Utilities Gas Pipelines Limited for total consideration of £3,148,000. These companies have subsequently been re-named ESP Networks Limited and ESP Pipelines Limited.

Dividend and transfer to reserves

The directors do not recommend the payment of a dividend *(2003: £nil)*. The loss for the year retained in the company is £360,840 *(2003: £303,420)*.

Directors and directors' interests

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

NJ Fisher

PB Holder

RW Wallace

NJ Clark

None of the directors who held office during the financial year had any disclosable interest in the shares of the company. The interests of the directors of the shares of East Surrey Holdings plc are shown in the financial statements of that company and are available from the address given in note 17.

Political and charitable contributions

The company made no political contributions during the year *(2003: £nil)*. Charitable donations amounted to £nil *(2003: £100)*

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to re-appoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board

NJ Fisher
Director

London Road
Redhill
Surrey
RH1 1LJ
5 August 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for the year. 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;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc
8 Salisbury Square
London
EC4V 8BB

Independent auditors' report to the members of E.S. Pipelines Limited

We have audited the financial statements on pages 4 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5 August 2004

Profit and loss account

for the year ended 31 March 2004

	Note	**2004**	2003
		£	£
Turnover	1	**275,193**	124,027
Cost of sales		**(85,120)**	(42,766)
Gross profit		**190,073**	81,261
Administrative expenses		**(544,793)**	(473,935)
Operating loss		**(354,720)**	(392,674)
Interest payable and similar expense	3	**(162,301)**	(35,895)
Other interest receivable and similar income	4	**9,211**	3,704
Loss on ordinary activities before taxation	2	**(507,810)**	(424,865)
Tax credit on loss on ordinary activities	7	**146,970**	121,445
Loss on ordinary activities after taxation and retained loss for the financial year		**(360,840)**	(303,420)
Retained loss brought forward		**(792,151)**	(488,731)
Retained loss carried forward		**(1,152,991)**	(792,151)

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

The notes on page 6 to 12 form part of these financial statements.

Balance sheet
at 31 March 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	8	**6,797,104**	3,071,834
Investments	9	**3,219,611**	-
		10,016,715	3,071,834
Current assets			
Stock	10	**1,610**	4,565
Debtors	11	**880,962**	906,875
Cash at bank and in hand		**454,656**	79,032
		1,337,228	990,472
Creditors: amounts falling due within one year	12	**(2,346,743)**	(942,752)
Net current (liabilities)/assets		**(1,009,515)**	47,720
Total assets less current liabilities		**9,007,200**	3,119,554
Creditors: amounts falling due after one year	13	**(7,557,071)**	(1,918,967)
Provision for liabilities and charges	14	**(103,120)**	(42,738)
Net assets		**1,347,009**	1,157,849
Capital and reserves			
Called up share capital	15	**2,500,000**	1,950,000
Profit and loss account		**(1,152,991)**	(792,151)
Shareholders' funds	16	**1,347,009**	1,157,849
Analysis of shareholders' funds			
Equity interests		**(802,991)**	(442,151)
Non-equity interests	15	**2,150,000**	1,600,000
		1,347,009	1,157,849

These financial statements were approved by the board of directors on 5 August 2004 and were signed on its behalf by:

NJ Fisher
Director

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.

The holding company has undertaken to provide sufficient funds for the company to meet its external liabilities. Accordingly the financial statements have been prepared on a going concern basis.

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 the company is a wholly owned subsidiary (the company's voting rights are controlled within the group headed by East Surrey Holdings plc) the company has taken advantage of the exemption contained in FRS 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 East Surrey Holdings plc, within which this company is included, can be obtained from the address given in note 17.

Turnover

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

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
Motor vehicles	- 4 years

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 losses 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.

Pension scheme

Some employees are members of the Water Companies Associated Pension Scheme which is a group pension scheme. The details of this scheme and the particulars of the actuarial valuation are disclosed in the accounts of the company's ultimate parent company, available from the address given in note 17.

Notes *(continued)*

2 Loss on ordinary activities before taxation

	2004 £	2003 £
Loss on ordinary activities before taxation is stated after charging /(crediting):		
Auditors' remuneration – audit	**3,000**	3,650
Depreciation	**106,352**	52,187
Third party contributions amortisation	**(22,615)**	(5,414)

3 Interest payable and similar charges

	2004 £	2003 £
Amounts payable on bank loans and overdrafts	***162,301***	35,895

4 Other interest receivable and similar income

	2004 £	2003 £
Bank interest	**9,211**	3,704

5 Remuneration of directors

	2004 £	2003 £
As directors	**116,503**	111,777

There were two paid directors during the year (*2003: two*).

6 Staff numbers and costs

The average number of persons employed by the company (including two of the directors) during the year was as follows:

	2004 £	2003 £
Administration	**9**	8

Notes *(continued)*

6 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	**250,668**	219,931
Social security costs	**24,320**	21,336
Pensions costs	**30,492**	17,582
	305,480	258,849

7 Taxation

Analysis of charge in period

	2004		2003	
	£	£	£	£
UK corporation tax				
Group relief receivable	**(207,333)**		(156,151)	
Adjustments in respect of prior periods	**(19)**		2,787	
Total current tax		**(207,352)**		(153,364)
Deferred tax (see note 14) – current		**60,382**		31,919
Tax on loss on ordinary activities		**(146,970)**		(121,445)

Factors affecting the tax charge for the current year

The current tax credit for the year is higher *(2003: higher)* than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	2004	2003
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(507,810)**	(424,865)
Current tax at 30% *(2003: 30%)*	**(152,343)**	(127,460)
Effects of:		
Expenses not deductible for tax purposes	**3,589**	3,228
Capital allowances for period in excess of depreciation	**(58,579)**	(31,919)
Adjustments to tax charge in respect of previous periods	**(19)**	2,787
Total current tax (see above)	**(207,352)**	(153,364)

Notes *(continued)*

8 Fixed assets

	Plant and machinery £	Motor Vehicles £	Fixtures, fittings, tools & equipment £	Total £
Cost				
At 1 April 2003	3,003,845	101,101	45,192	3,150,138
Additions	3,813,578	-	25,663	3,839,241
Disposals	-	(19,000)	(8,083)	(27,083)
At 31 March 2004	6,817,423	82,101	62,772	6,962,296
Depreciation				
At 1 April 2003	33,952	31,529	12,823	78,304
Charge for year	72,274	21,317	12,761	106,352
Disposals	-	(13,854)	(5,610)	(19,464)
At 31 March 2004	106,226	38,992	19,974	165,192
Net book value				
At 31 March 2004	**6,711,197**	**43,109**	**42,798**	**6,797,104**
At 31 March 2003	2,969,893	69,572	32,369	3,071,834

9 Fixed asset investments

	£
Cost	
At 1 April 2003	-
Subsidiaries acquired 28 October 2003	**3,219,611**
At 31 March 2004	**3,219,611**

Details of the company's fixed asset investment in subsidiaries is as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary			
ESP Pipelines Limited	England & Wales	Public gas transport	Ordinary shares 100%
ESP Networks Limited	England & Wales	Public gas transport	Ordinary shares 100%

Notes *(continued)*

10 Stock

	2004	2003
	£	£
Work in progress	**1,610**	4,565

11 Debtors

	2004	2003
	£	£
Trade debtors	**459,972**	490,710
Amounts owed by group undertakings	**126,505**	100,811
Other debtors	**56,785**	141,777
Prepayments and accrued income	**30,367**	17,426
Group relief receivable	**207,333**	156,151
	880,692	906,875

12 Creditors: *amounts falling due within one year*

	2004	2003
	£	£
Trade creditors	**406,767**	409,183
Bank loan	**1,075,350**	282,179
Amounts owed to group undertakings	**731,976**	201,381
Accruals and deferred income	**132,650**	50,009
	2,346,743	942,752

13 Creditors: amounts falling due after more than one year

	2004	2003
	£	£
Bank loan	**5,066,576**	1,049,634
Deferred income	**2,490,495**	869,333
	7,557,071	1,918,967

Notes *(continued)*

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

Analysis of bank loans:

	2004 £	2003 £
Bank loans can be analysed as falling due:		
In one year or less, or on demand	**1,075,350**	282,179
Between one and two years	**1,075,350**	282,179
Between two and five years	**3,991,226**	767,455
	6,141,926	1,331,813

Bank loans are guaranteed by the company's parent East Surrey Holdings plc.

14 Provisions for liabilities and charges

	Deferred taxation £
At beginning of year	42,738
Charge to the profit and loss for the year	60,382
At end of year	**103,120**

The elements of deferred taxation are as follows:

	2004 £	2003 £
Difference between accumulated depreciation and amortisation and capital allowances	**103,120**	42,738

15 Called up share capital

	2004 £	2003 £
Authorised		
Ordinary shares of £1 each	**1,000,000**	1,000,000
Cumulative redeemable preference shares	**10,000,000**	10,000,000
	11,000,000	11,000,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**350,000**	350,000
Preference shares of £1 each	**2,150,000**	1,600,000
	2,500,000	1,950,000

The company issued 550,000 preference shares of £1 each during the year at nominal value.

Notes *(continued)*

16 Reconciliation of movements in shareholders' funds

	2004	2003
	£	£
Loss for the financial year	**(360,840)**	(303,420)
New share capital subscribed (net of issue costs)	**550,000**	700,000
Net addition to shareholders' funds	**189,160**	396,580
Opening shareholders' funds	**1,157,849**	761,269
Closing shareholders' funds	**1,347,009**	1,157,849

17 Ultimate holding company and parent undertaking of larger group

The company's ultimate holding company is East Surrey Holdings plc, a company registered in England. The results of the company are consolidated in the financial statements of the ultimate holding company, which are available to the public and may be obtained from London Road, Redhill, Surrey, RH1 1LJ.