

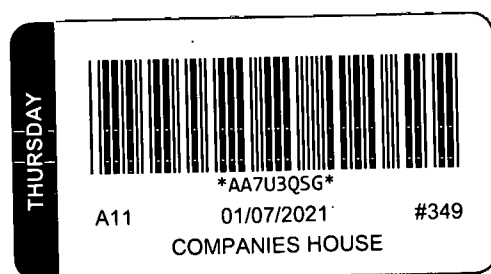
E.S. Pipelines Limited

Report and Financial Statements

Year Ended

31 December 2020

Registered number 03822878



E.S. Pipelines Limited

Report and financial statements for the year ended 31 December 2020

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Directors

Anna Dellis
Simon Lees
Paul Miles
Adam Miller
Kevin O'Connor
Sebastian Schwengber
Vicki Spiers

Secretary and registered office

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

Company number

03822878

Auditor

Deloitte LLP, 1 New Street Square, London. EC4A 3BZ

E.S. Pipelines Limited

Strategic report for the year ended 31 December 2020

Principal activities and future developments

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

The Company forms part of the ESP Utilities Group of companies which in addition to E.S. Pipelines Limited comprises ESP Pipelines Limited, ESP Networks Limited, ESP Connections Limited, Gas Newco 1 Limited, ESP Electricity Limited, ESPUG Finance Limited and ESP Utilities Group Limited.

Review of the business

On 21st December 2019 E.S. Pipelines Limited (ESP) entered into an agreement with Fulcrum Utility Services Limited to purchase its domestic customer gas connection assets, including order book and associated meters for circa £46m. The first tranche of the deal completed on 31 March 2020, with circa £18m paid for Gas Newco 1 Limited, and a further £4.7m paid in November 2020 for a second tranche of assets. The balance relating to part-complete networks and the internal and external order books will be payable over the next 5 years, as assets are built out and transferred to ESP.

The purchase has been funded by ESPUG Finance Limited, the immediate holding company, by the issue of £30m of 2.116% PP loan notes which mature on 13 February 2035.

The statement of comprehensive income is set out on page 9 and shows turnover for the period of £30,390,000 (2019: £28,465,000) and a loss for the period of £98,000 (2019: profit £12,196,000). Current year profits have been impacted by a one-off write down in the investment value of ESP Pipelines Limited and ESP Networks Limited, combined with an increase in overheads.

Dividends received during the year amounted to £3,000,000 (2019: £5,500,000) from Group undertakings.

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

The number of installed connections as at the end of the year was 387,133 with a growth of 20% in the year, (2019: 322,083, 12% in the previous year). 38% of the growth is directly related to the build out of the Company's growing order book from previous years, and 62% of growth from the acquisition of connections from Fulcrum Utility Services Limited.

Turnover has increased during the period due to the increase in connections mentioned above. Based on the current economic forecasts and given the competitive market conditions, expectations for 2021 are that turnover will continue to grow as the order book for connections are installed.

The Company continues to expand its portfolio of assets through three main areas of activity. First, through the adoption of gas 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 industrial and commercial (I&C) connections for clients.

The directors 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.

As a transporter of gas to predominantly domestic properties there was no impact on the income or costs of the business during 2020 due to Covid-19.

E.S. Pipelines Limited

Strategic report (continued) for the year ended 31 December 2020

Principal risks and uncertainties

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

The availability of new housing connections from UIPs is dependent on the overall housing market, which is dependent upon a positive economic outlook. The Directors have adjusted the forecasted new wins for 2021 to provide for a level of uncertainty in this period going forward due to potential ongoing Covid disruption and its impact on the wider economy.

The ownership and operation of gas pipelines represents approximately 71% (2019: 67%) of the Company's revenue. 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 (iGTs), 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 operates and maintains meters connected to its gas pipelines. Metering income represents approximately 29% (2019: 33%) of the Company's revenue. The meter market in the UK has been open to competition since 2004 and over the next 4 years it is forecast that dumb meter revenue will materially decline as a consequence of the Government mandated smart meter roll out. However the business model predicts an increase in the smart meter portfolio as new meters are installed with new connections going forward.

The Directors have considered the future of the Groups gas networks in the context of the goal for decarbonisation of heat by 2050 and have concluded that a lack of a clear technology roadmap or a public policy framework means our gas networks will have a useful economic life well beyond 2050. As detailed in the Committee on Climate Change's Net Zero report in May 2019, we believe the future of heat is reliant on a mix of technologies and fuels, with an ongoing role for gas.

The future of heat is uncertain and is dependent on the future development of new and emerging technologies. There is inherent uncertainty in this development and we do not believe that any of these technologies can, in the next 30 years, reach a sufficient scale to replace the need for gas networks.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future given the long term nature of its regulated income, cash generation and future order book, and have prepared the financial statements on a going concern basis as set out in note 1.

For and on behalf of the Board



P Miles
Director

7 May 2021

E.S. Pipelines Limited

Directors' report for the year ended 31 December 2020

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

There are no Post Balance sheet events to report.

Dividends

Dividends of £3,000,000 (2019: £5,500,000) were received during the year. Dividends of £10,000,000 were paid during the year (2019: £nil).

Directors

The Directors of the Company throughout the year were:

Nick J Clark (resigned 30 June 2020)
Anna Dellis
Simon Lees (appointed 7 September 2020)
Paul Miles
Adam Miller
Kevin O'Connor
Sebastian Schwengber
Vicki Spiers

Disclosure of information to Auditor

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 auditor is 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 auditor is 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 £140,489,000 (2019: £104,899,000) of debt outstanding with its Group companies. Interest on this loan is payable at a fixed rate of 8%. The Directors have controls in place to manage cash flow and maintain interest payments.

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 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.

Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 234 of the Act) were in force during the year ended 31 December 2020 and remain in force, in relation to certain losses and liabilities that the directors may incur to third parties in the course of acting as directors or employees of the Company. Neither the Company's indemnity nor its insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

E.S. Pipelines Limited

Directors' report (*continued*) for the year ended 31 December 2020

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.

Auditor

Deloitte LLP were appointed Auditors to the Group in October 2020 following a tender process. A resolution to reappoint Deloitte LLP will be proposed at the next Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

For and on behalf of the Board



**P Miles
Director**

7 May 2021

E.S. Pipelines Limited

Directors' responsibilities statement for the year ended 31 December 2020

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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;
- 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.

E.S. Pipelines Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF E.S. PIPELINES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of E.S. Pipelines Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

E.S. Pipelines Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF E.S. PIPELINES LIMITED (CONT)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

E.S. Pipelines Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF E.S. PIPELINES LIMITED (CONT)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions 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.

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

Matters on which we are required to report by exception

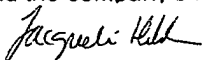
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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.



Jacqueline Holden FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London, UK

7 May 2021

E.S. Pipelines Limited

Statement of comprehensive income for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	3	30,390	28,465
Cost of sales		(8,244)	(7,995)
Gross profit		22,146	20,470
Administrative expenses		(9,179)	(6,983)
		12,967	13,487
Other operating income - management fee		2,833	2,368
Impairment in investment		(8,113)	-
Dividends from share in group undertakings		3,000	5,500
Operating profit	4	10,687	21,355
Interest payable and similar charges	5	(9,668)	(8,148)
Profit on ordinary activities before taxation		1,019	13,207
Taxation on profit on ordinary activities	8	(1,117)	(1,011)
(Loss)/profit for the financial year and total comprehensive (expense)/income for the year		(98)	12,196

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes on pages 12 to 23 form part of these financial statements.

E.S. Pipelines Limited

Balance sheet at 31 December 2020

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Fixed assets					
Tangible assets	9		200,348		165,052
Investments	10		85,061		74,868
			<u>285,409</u>		<u>239,920</u>
Current assets					
Debtors	11	13,778		12,966	
Cash at bank and in hand		4,017		2,304	
		<u>17,795</u>		<u>15,270</u>	
Creditors: amounts falling due within one year	12	<u>(197,331)</u>		<u>(140,276)</u>	
Net current liabilities			<u>(179,537)</u>		<u>(125,006)</u>
Total assets less current liabilities			<u>105,872</u>		<u>114,914</u>
Creditors: amounts falling due after more than one year	13		<u>(23,122)</u>		<u>(23,183)</u>
Provisions for liabilities	14		<u>(3,234)</u>		<u>(2,117)</u>
Net assets			<u>79,516</u>		<u>89,614</u>
Capital and reserves					
Called up share capital	16		15,071		15,071
Profit and loss account			64,445		74,543
			<u>79,516</u>		<u>89,614</u>

The financial statements were approved by the Board of Directors and authorised for issue on 7 May 2021 and were signed on its behalf by:



P Miles
Director

The notes on pages 12 to 23 form part of these financial statements.

E.S. Pipelines Limited
Statement of changes in equity
for the year ended 31 December 2020

	Share capital 2020 £'000	Profit and loss account 2020 £'000	Total equity 2020 £'000	Share capital 2019 £'000	Profit and loss account 2019 £'000	Total equity 2019 £'000
1 January	15,071	74,543	89,614	15,071	62,347	77,418
Comprehensive income for the year (Expense)/profit for the year	-	(98)	(98)	-	12,196	12,196
Total comprehensive (expense)/income for the year	-	(98)	(98)	-	12,196	12,196
Contributions by and distributions to owners						
Dividends paid	-	(10,000)	(10,000)	-	-	-
Total contributions by and distributions to owners	-	(10,000)	(10,000)	-	-	-
31 December	15,071	64,445	79,516	15,071	74,543	89,614

The notes on pages 12 to 23 form part of these financial statements.

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020

1 Accounting policies

E.S. Pipelines Limited is a private company, limited by shares, incorporated in England & Wales under the Companies Act.

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 financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

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 as this information is included in the consolidated accounts of ESP Utilities Group Limited (company number 02612105), which can be obtained from Companies House; and
- 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 within the accounts of ESP Utilities Group Limited.

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding that at 31 December 2020 the Company had net current liabilities of £179,537,000 (2019: £125,006,000). 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 to the extent that to do so would prevent the Company being able to meet its liabilities as they fall due in the next twelve month period from the date of these financial statements. 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 fifteen months from the date of approval of these financial statements. In addition, stress cash flows have been prepared at Zoom Holding Limited level to assess an increased impact of Covid-19. Based on the lack of any detriment to the business from Covid-19 during 2020 the Directors do not believe there will be any material financial or operational impact from Covid-19 in the future. As a transporter of gas to predominantly domestic properties the Directors' assessment is that Covid-19 will continue not have a significant impact on either the income or costs of the Company.

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:

1 Accounting policies (*continued*)

Consolidated financial statements

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statement of a parent undertaking. These financial statements therefore present information about the Company as an individual undertaking and not as a Group.

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020

1 Accounting policies (*continued*)

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.

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 by equal instalments over their estimated useful lives as follows:

Fixtures, fittings, tools & equipment	4 to 8 years
Motor Vehicles	4 years
Gas networks	60 years
Meters	20 years
Prepayment & smart meters	10 years

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 and released to turnover in 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.

Investments

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

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020

1 Accounting policies (continued)

Impairment of 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.

Employee Benefits

The Company operates a defined contribution 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 the statement of comprehensive income 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 balance sheet date.

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.

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020

1 Accounting policies (continued)

Current and deferred taxation (continued)

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.

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 Assets

Financial assets, other than investments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment. Any subsequent impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at 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. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Preference shares

Preference shares, which at the company's option, can be redeemed in whole or in part at any time giving three months' notice in writing, are classified as liabilities. The dividends on these preference shares are taken to the income statement as a finance expense.

Reserves

The Company's reserves are as follows:

- Called up share capital 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.

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

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 and fixed asset investment. This is a judgemental process which requires estimating 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, the long term growth rate and the discount rate..
- Tangible fixed assets are depreciated over their useful lives. 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, Government policy and industry trends are taken into account.

3 Analysis of Turnover

	2020 £'000	2019 £'000
Analysis by class of business:		
Gas transportation	21,277	19,055
Gas metering	8,708	9,410
Release of deferred income on third party contributions	405	
	<u>30,390</u>	<u>28,465</u>

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

The release of deferred income has been reported as turnover for 2020 in accordance with FRS102. Previously this was credited to cost of sales. Prior year figures have not been restated as the amount is not deemed material, and there is no change to the operating profit of the Company.

4 Operating profit

	2020 £'000	2019 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	5,460	5,651
Release of deferred income on third party contributions	(405)	(337)
Profit on disposal of fixed assets	(33)	(2)
Operating lease – land and buildings	232	232
Auditor's remuneration	55	29
	<u></u>	<u></u>

5 Interest payable and similar charges

	2020 £'000	2019 £'000
Interest payable to parent company	9,641	8,110
Preference share interest payable	27	38
	<u>9,668</u>	<u>8,148</u>

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

6 Staff numbers and costs

The average number of persons employed by the company (including six of the directors), (2019 : seven) during the year was as follows:

	2020 Number	2019 Number
Administration	53	56

The aggregate payroll costs of these persons were as follows:

	2020 £'000	2019 £'000
Wages and salaries	3,383	4,251
Social security costs	428	536
Pension costs	231	238
	<u>4,042</u>	<u>5,025</u>

7 Remuneration of Directors

	2020 £'000	2019 £'000
Directors' emoluments	1,726	2,094
Compensation for loss of office	-	232
Company contributions to money purchase pension schemes	80	70
	<u>1,806</u>	<u>2,396</u>

There were six paid directors during the year (2019: seven). The Directors are considered to be the only key management personnel.

The remuneration of the highest paid director who served during the period was as follows:

	2020 £'000	2019 £'000
Directors' emoluments	608	615
Company contributions to money purchase pension schemes	-	-

E.S. Pipelines Limited

Notes forming part of the financial statements
for the year ended 31 December 2020 (*continued*)

8 Taxation on profit on ordinary activities

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
<i>UK corporation tax</i>				
Current tax on profits of the year		-		-
Adjustment in respect of previous periods		-		-
Total current tax		-		-
<i>Deferred tax</i>				
Deferred tax current period (see note 15)	876		1,155	
Effect of changes in tax rate	248		(119)	
Deferred tax prior period	(7)		(25)	
		1,117		1,011
Total tax charge / (credit)		1,117		1,011

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

Tax reconciliation

	2020 £'000	2019 £'000
Profit on ordinary activity before tax	1,019	13,207
Current tax at 19% (2019: 19%)	193	2,509
<i>Effects of:</i>		
Expenses not deductible for tax purposes	996	20
Prior year adjustment	(6)	118
Group relief claimed for nil consideration	(314)	(330)
Effect of change in tax rate	248	(25)
Exempt group income	-	(1,045)
Total tax charge / (credit)	1,117	1,011

E.S. Pipelines Limited

Notes forming part of the financial statements
for the year ended 31 December 2020 *(continued)*

9 Tangible fixed assets

	Motor Vehicles £'000	Fixtures, fittings, tools & equipment £'000	Networks £'000	Meters £'000	Total £'000
<i>Cost</i>					
At 1 January 2020	455	2,530	165,949	19,513	188,447
Additions	58	568	36,828	3,405	40,859
Disposals	(244)	-	-	(1,328)	(1,572)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	269	3,098	202,777	21,590	227,734
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2020	164	1,643	16,708	4,880	23,395
Provision for year	89	237	3,153	1,981	5,460
Disposals	(141)	-	-	(1,328)	(1,469)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	112	1,880	19,861	5,533	27,386
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2020	157	1,218	182,916	16,057	200,348
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	291	887	149,241	14,633	165,052
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The PP loan notes in the immediate holding company, ESPUG Finance Limited, are secured by an All Assets charge over the assets of the Group, including those of E.S. Pipelines Limited.

10 Fixed asset investments

	£'000
Cost at 1 January 2020	74,868
Additions Gas Newco 1 Limited	18,344
Impairment to investments	(8,151)
	<hr/>
Cost as at 31 December 2020	85,061
	<hr/>

Impairment testing was carried out after impairment indicators were identified. Using discounted cashflows a review of the value of investments held was undertaken which resulted in reductions to the value of ESP Pipelines Limited and ESP Networks Limited.

E.S. Pipelines Limited

Notes forming part of the financial statements
for the year ended 31 December 2020 (continued)

10 Fixed asset investments (continued)

Details of the Company's fixed asset investment in subsidiaries are as follows:

Subsidiary	Country of incorporation	Principal activity	Class and percentage of shares held
ESP Pipelines Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Networks Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Connections Limited	England & Wales	Independent gas transport	Ordinary shares 100%
Gas Newco 1 Limited	England & Wales	Independent gas transport	Ordinary shares 100%

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

11 Debtors

	2020	2019
	£'000	£'000
Trade debtors	3,892	3,237
Amounts owed by Group undertakings	164	124
Group relief receivable from fellow subsidiaries	8,888	8,888
Prepayments and accrued income	834	717
	<hr/> 13,778 <hr/>	<hr/> 12,966 <hr/>

All debtors are due within one year.

The amounts owed by group undertakings relate to intercompany balances which do not bear interest and are repayable on demand by the Company when sufficient funds are available to do so.

12 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	8,492	7,811
Other creditors	1,141	593
Loans due to group undertakings	140,489	104,899
Amounts owed to Group undertakings	41,716	23,407
Accruals and deferred income	5,348	3,425
Tax and Social Security	146	141
	<hr/> 197,332 <hr/>	<hr/> 140,276 <hr/>

The amounts owed to group undertakings relate to intercompany balances which do not bear interest and are repayable on demand by the Company when sufficient funds are available to do so.

Loans due to group undertaking attract interest at rates as per note 14. The loans are repayable on demand.

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

13 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Deferred income	19,810	19,898
Preference shares	3,312	3,285
	<u>23,122</u>	<u>23,183</u>

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 treated as deferred income and released to turnover in the statement of comprehensive income, over the useful life of the related assets.

The carrying value of the preference shares includes accrued interest in respect of cumulative dividends.

Interest is payable on the above amounts at the following rates:

	2020 £'000	2019 £'000
Interest charged at a fixed rate of 8%	140,489	104,899

14 Provisions for liabilities

	Deferred taxation 2020 £'000	Deferred taxation 2019 £'000
At 1 January	2,117	1,106
Charged/(credited) to profit or loss	1,117	1,011
	<u>3,234</u>	<u>2,117</u>
At 31 December	3,234	2,117

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

Deferred tax liabilities

	2020 £'000	2019 £'000
Difference between accumulated depreciation and amortisation and capital allowances	3,762	2,131
Other timing differences	(528)	(14)
	<u>3,234</u>	<u>2,117</u>

E.S. Pipelines Limited

Notes forming part of the financial statements for the year ended 31 December 2020 (continued)

14 Provisions for liabilities (continued)

In the March 2021 Budget, the UK Government announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As the changes had not been substantively enacted at the balance sheet date, the deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19%. If the 25% tax rate had been used at the balance sheet date, the deferred tax liability would have been c. £1.021m higher. The company is in the process of assessing the full impact of this announcement, but if the amended tax rate had been used, it is possible that the deferred tax liability would be materially higher.

15 Pensions – defined contribution scheme

The amount recognised in the statement of comprehensive income as an expense in relation to the Company's defined contribution schemes is £231,000 (2019 - £238,000). £nil was outstanding at year end (2019 - £nil).

16 Share capital

	2020 £'000	2019 £'000
<i>Authorised</i>		
20,000,000 Ordinary shares of £1 each	20,000	20,000
10,000,000 Cumulative redeemable preference shares of £1 each	10,000	10,000
	<u>30,000</u>	<u>30,000</u>
<i>Allotted, called up and fully paid</i>		
15,070,885 Ordinary shares of £1 each	15,071	15,071
2,150,000 Cumulative redeemable preference shares of £1 each	2,150	2,150
	<u>17,221</u>	<u>17,221</u>
	2020 £'000	2019 £'000
Shares classified in liabilities	2,150	2,150
Shares classified in Shareholders' funds	15,071	15,071
	<u>17,221</u>	<u>17,221</u>

The ordinary shareholders have full voting rights.

The preference shares are cumulative at a coupon of 1% above bank base rate. The Company may, at its option, redeem at par the redeemable preference shares in whole or in part at any time giving three months' notice in writing. The preference shareholders are entitled to a payment of dividend in priority to the payment of any dividend to the holder of the ordinary shares. The preference shareholders do not have voting rights.

E.S. Pipelines Limited

Notes forming part of the financial statements
for the year ended 31 December 2020 (continued)

17 Capital commitments

	2020 £'000	2019 £'000
Capital commitments authorised by the directors are:		
Contracted	88,153	72,295

The capital commitments are in respect of future connections the Company has contracted but not provided for as at 31 December 2020.

18 Commitments under operating leases

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

	2020 £'000	2019 £'000
Not later than 1 year	232	232
Later than 1 year and not later than 5 years	928	928
Later than 5 years	59	291
Total	1,219	1,451

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

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

The Company's immediate holding company is ESPUG Finance Limited, a Company registered in England. The Company's ultimate holding company is Zoom Holding Limited, a Company registered in England and Wales. The Company is ultimately controlled by 3i MIA LP, an English limited partnership, which is managed by 3i Investments plc. 3i Investments plc is wholly owned by 3i Group plc. The general partner of 3i MIA LP is 3i Managed Infrastructure GP (2017) LLP.

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.