

Company Registration Number: 08998658

Indigo Pipelines Holdco 1 Limited

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2021

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Indigo Pipelines Holdco 1 Ltd

Report and financial statements 2021

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Indigo Pipelines Holdco 1 Limited

Officers and professional advisors

Directors

Surinder Toor (Resigned 9 October 2020)

Charles Hazelwood

Adam Delaney (Appointed 9 October 2020)

Registered Office

Loddon Reach Reading Road

Arborfield

Reading

Berkshire

England

RG2 9HU

Bankers

The Royal Bank of Scotland plc

City of London

1 Princess Street

London

EC2R 8BP

Solicitors

Dentons UKMEA LLP

1 George Square

Glasgow

G2 1AL

Auditor

Deloitte LLP

Statutory Auditor

110 Queen Street

Glasgow

G1 3BX

Indigo Pipelines Holdco 1 Limited

Strategic report

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Indigo Pipelines Holdco 1 Limited ("The Company") is owned by Edingho Bidco Limited and is a holding company of Indigo Pipelines Holdco 2 Limited which in turn owns Indigo Pipelines Limited and Indigo Power Limited – collectively "the Group". Indigo Pipelines Limited is a licensed gas transporter, acquiring, owning and operating gas mains and services on new housing and commercial developments throughout Great Britain. Indigo Power Limited is a licensed electricity independent distribution network operator, acquiring, owning and operating electricity connections to domestic housing and commercial developments throughout Great Britain.

Strategy and Objectives

Indigo Pipelines Holdco 1 Limited's ("The Company") principal activity is to act as a holding and company for Indigo Pipelines Holdco 2 Limited, which in turn owns Indigo Pipelines Limited and Indigo Power Limited.

Indigo Pipelines Limited is a licensed gas transporter, acquiring, owning and operating gas connections to domestic housing and commercial developments throughout Great Britain. It is regulated by Ofgem and is responsible for safely transporting gas through its networks to 190,949 residential and commercial properties across Great Britain. Indigo Power Limited is a licensed electricity independent distribution network operator, acquiring, owning and operating electricity connections to domestic housing and commercial developments throughout Great Britain. Indigo Power Limited is also regulated by Ofgem, acquired its operating licence in August 2020 and adopted its first electricity connections in May 2021.

The directors' strategy and business monitoring remains focused on the underlying performance of the subsidiaries.

Key Performance Indicators and Business Review

The Group has borrowing arrangements in place with external lenders. This is subject to regular covenant testing. The Group has been performing well and is forecast to remain compliant with the covenants laid out in the loan agreement.

The Group includes Indigo Pipelines Limited, a licensed gas transporter, acquiring, owning and operating gas connections on housing and commercial developments throughout Great Britain. The total number of connections owned by the Company increased during the year and was 190,949 as at 31 March 2021 (2020: 187,687).

The Group also includes Indigo Power Limited, a licensed electricity independent distribution network operator, acquiring, owning and operating electricity connections. Indigo Power Limited obtained its licence in August 2020 and adopted its first electricity connections in May 2021.

Management actively monitors the performance of the business through reviewing the services provided to it by SSE Utility Solutions Limited and measuring the financial performance and profitability of the Company.

The impact of the Covid-19 pandemic is continually monitored by management, the issues are discussed in detail in the Directors' report.

Indigo Pipelines Holdco 1 Limited

Strategic report

Key Performance Indicators (Group)

- Total number of gas and electricity connections 190,949 an increase of 3,262 (1.7%) on 2020
- Adjusted operating profit* £8,040,000 an increase of £176,000 (2.2%) on 2020

*Adjusted operating profit is calculated as profit before deducting depreciation, amortisation of intangible assets and goodwill, and release of deferred income in relation to customer contributions and capital grants.

The operating profit in the year was £5,028,000 (2020: £5,007,000).

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group concern the quality of service delivery provided by SSE Utility Solutions Limited and ensuring the Group's network is designed, constructed, operated and maintained in a safe and regulatory compliant manner. These areas are actively monitored by the Board of Directors to ensure continued quality of service delivery.

The safe operation of the Group's gas and electricity network has not been affected by the Covid-19 pandemic. Utility workers have been designated as critical workers by the government and have been able to continue maintenance and repair activities.

The Board of Directors also manage the financial risk of the business through ensuring it continues to operate profitably and according to its business plan. Management of financial risks include the directors ensuring appropriate controls are in place regarding cash control, working capital management and the effective collection of debtors.

Compliance risks (such as anti-bribery, anti-fraud, data protection and regulation) are managed by prudent and verifiable controls.

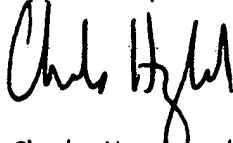
Future Developments

The Group enters 2021/22 with a strong pipeline of gas and electricity connection opportunities and is well placed to continue to grow the number of connections it owns. During 2020/21 the Group has been successful in increasing its number of installed connections by 3,262 to 190,949 residential and commercial properties across Great Britain.

The Group, after acquiring its licence to operate as an electricity independent distribution network operator, now has a multi-utility offering with the ability to adopt, own and operate both gas and electricity connections.

The Group aims to achieve a zero-harm target to life, property, and minimise our impact on the environment where possible.

Approved by the Board of Directors and signed on behalf of the Board



Charles Hazenwood
Director

25 June 2021

Indigo Pipelines Holdco 1 Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2021.

Results and dividends

The profit for the financial year amounted to £2,406,000 (2020: £1,973,000). The directors declared and paid dividends of £12,500,000 (2020: £nil) during the year.

Future developments

Details of future developments can be found in the Strategic Report.

Directors

The directors who served during the year and up to the date of this report are as follows:

Surinder Toor (Resigned 9 October 2020)

Charles Hazelwood

Adam Delaney (Appointed 9 October 2020)

Director's indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Financial risk management objectives and policies

The Group activities expose it primarily to several financial risks including cash flow risk and interest rate risk, as detailed below:

Cash flow risk

The Group has a commitment that the subsidiary can drawdown funds from the bank on behalf of Indigo Pipelines Limited and Indigo Power Limited to fund its capital expenditure requirements. Monthly forecast cash flows show that secure trading from existing connections keeps the Group in a low risk environment.

Interest rate risk

As a result of its external borrowing facilities which have interest charged based on LIBOR, the Group is exposed to fluctuations in interest rates. The Group has entered into interest rate swaps in order to hedge movements in future interest rates.

Political and economic risk

The Company is not subject to material risk from the decision of the United Kingdom to leave the European Union.

Environmental and climate risk

The Board continually monitors the opportunities and risks associated with the UK's net-zero climate change target for 2050, and the UK's target to reduce emissions by 78% by 2035 as outlined in the sixth Carbon Budget in April 2021.

The decarbonisation of the UK energy system will contribute to achievement of these targets, and it is well publicised that the government's decarbonisation agenda may mean the end of new gas connections after 2025. There are new technologies emerging that will influence the rate and direction of change, including low carbon hydrogen solutions utilising existing gas infrastructure. In obtaining its licence to operate as an electricity independent distribution network operator the Group is well

Indigo Pipelines Holdco 1 Limited

Directors' report

positioned to continue to grow its connections numbers and transportation revenue at a time when UK housebuilders and developers are building new homes to The Future Homes Standard with low carbon heating solutions.

Environmental and climate risk is continually monitored by the Board as part of the risk assessment process.

Going Concern

The Board of Directors expects that the strong operational and financial performance of the business will continue into 2021/22 and beyond, in line with its business plan.

The Group has borrowing arrangements in place with external lenders, which are subject to regular covenant testing. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to continue to be profitable and cash generative going forward. The forecasts give due regard to available banking facilities and show that the Group and Company will continue to remain within related covenant requirements.

Impact of Covid-19 Pandemic

The Covid-19 Pandemic has not had a material impact on the results of the Company, or the Group, for the year ending 31 March 2021.

Indigo Pipelines revenue is received for transporting gas through its pipes. There are, broadly, two different types of gas connection – Domestic and Commercial.

Domestic gas connections

The revenue received for Domestic Gas connections is in effect a standing charge for the provision of the pipe. The revenue does not vary with the volume of gas transported through it.

Approximately 95% of Indigo Pipeline's Transportation Revenue is for Domestic Gas connections.

The UK government has put extensive measures in place to protect jobs. These measures enable end consumers to continue paying their gas bills, thus reducing the risk that gas suppliers and shippers suffer from cashflow problems that would result in them failing to meet their obligations. As these measures come to an end there is the potential for higher levels of end consumers defaulting on their energy bills and management regularly monitors this.

In the year to 31 March 2021, new connections growth meant that the revenue received for domestic gas connections increased by 4.5% compared to the prior year.

Consequently, management do not believe that there is a significant risk of a material reduction to domestic gas connection revenue.

Commercial gas connections

The revenue for Commercial Gas connections is linked to the quantity of gas consumed. The quantity consumed is only updated on an annual basis. Only 5% of Indigo's Transportation Revenue is for Commercial Gas connections.

In the year to 31 March 2021, the revenue received for commercial gas connections has remained at similar levels to the prior year. There is the potential that there may be some reductions in the medium term depending on the longer-term impacts of the Pandemic to certain business sectors. However, to put this into context, the increase in revenues from new domestic gas connections expected in FY2022 would be broadly equivalent to the entire revenue generated from commercial gas connections.

Indigo Pipelines Holdco 1 Limited

Directors' report

During the year there have been several smaller suppliers that have entered administration. In these circumstances the industry regulator, Ofgem, has appointed a 'Supplier of Last Resort' to take over the supply to end customers. Whilst the primary objective for Ofgem is to protect the interests of gas and electricity consumers, by appointing a 'Supplier of Last Resort' it also mitigates the extent to which the Company is exposed to credit risk. More than 99.5% of receivables have been collected in the year to 31 March 2021.

Reverse stress testing has been applied to the Group's forecasts for the financial year ending 31st March 2022. The cost base, including interest payable on the majority of the Group's loan funding, is fixed and predictable. It would take a 40% reduction in transportation receivables for the Group to be in a position where it no longer generates cash from its operations. Given the strong performance achieved during the year to 31 March 2021 this level of reduction is not deemed likely.

The Group's cash balance at 31 March 2021 was £6,838,000. In addition under its Senior Facilities Agreement (dated 14 March 2019) the Group has access to a £10m Revolving Facility and a £12.5m A2 Facility, both of which may be utilised for the general corporate and working capital purposes of the Group (excluding for Distributions).

On this basis the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Auditor

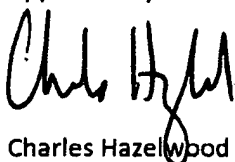
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 they ought to have taken as a director to make themselves 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.

Deloitte LLP have expressed their willingness to be reappointed for another term.

Approved by the Board of Directors and signed on behalf of the Board



Charles Hazelwood
Director
25 June 2021

Indigo Pipelines Holdco 1 Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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;
- State whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

Indigo Pipelines Holdco 1 Limited

Independent auditor's report to the members of Indigo Pipelines Holdco 1 Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Indigo Pipelines Holdco 1 Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit 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 consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated & company statement of financial position;
- the consolidated cash flow statement;
- the consolidated & company statement of changes in equity and
- the related notes 1 to 23.

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 group and the parent 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 group's and parent 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.

Indigo Pipelines Holdco 1 Limited

Independent auditor's report to the members of Indigo Pipelines Holdco 1 Limited

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 annual report, 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.

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 group's and the parent 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 group or the parent 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.

Indigo Pipelines Holdco 1 Limited

Independent auditor's report to the members of Indigo Pipelines Holdco 1 Limited

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 group's industry and its control environment, and reviewed the group'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 group 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 UK Companies Act and energy 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 regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the above, we identified the greatest potential for fraud in the following area and our specific procedures performed to address it are described below:

- Revenue recognition, pinpointed to cut off of new connections during the final month of the year. In addressing the risk we have updated our understanding of the revenue process and associated controls and performed focussed detailed tests on the revenue transactions.

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 and external legal counsel 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 the licensing authority Ofgem.

Indigo Pipelines Holdco 1 Limited

Independent auditor's report to the members of Indigo Pipelines Holdco 1 Limited

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 group and of the parent company and their 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



David Mitchell CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, UK

25 June 2021

Indigo Pipelines Holdco 1 Limited**Consolidated Income Statement
For the year ended 31 March 2021**

	Notes	2021 £'000	2020 £'000
Turnover	3	18,746	19,239
Cost of sales		(6,043)	(7,035)
Gross Profit		<u>12,703</u>	<u>12,204</u>
Distribution costs		(5,328)	(4,726)
Administrative expenses		(2,347)	(2,471)
Operating profit	4	<u>5,028</u>	<u>5,007</u>
Interest receivable and similar income	7	6	37
Interest payable and similar charges	8	(1,774)	(2,088)
Profit on ordinary activities before taxation		<u>3,260</u>	<u>2,956</u>
Tax charge on profit on ordinary activities	9	(854)	(983)
Profit for the financial year		<u><u>2,406</u></u>	<u><u>1,973</u></u>

The above results are derived from continuing operations of the Group unless otherwise noted.

The accompanying notes form part of these financial statements.

Indigo Pipelines Holdco 1 Limited

**Consolidated Statement of comprehensive income
For the year ended 31 March 2021**

	Notes	2021 £'000	2020 £'000
Consolidated Statement of comprehensive income			
Profit for the financial year		2,406	1,973
Cash flow hedge reserve	8	(113)	(660)
		<u>2,293</u>	<u>1,313</u>

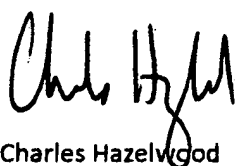
Indigo Pipelines Holdco 1 Limited

**Consolidated Statement of Financial Position
As at 31 March 2021**

		2021	2020
		£'000	£'000
	Notes		
Fixed assets			
Tangible assets	13	87,141	86,598
Intangible assets	12	11,886	12,409
		<u>99,027</u>	<u>99,007</u>
Current assets			
Debtors	15	1,853	1,782
Cash		6,838	14,689
		<u>8,691</u>	<u>16,471</u>
Creditors: amounts falling due within one year	16	(6,739)	(7,676)
Net current assets		<u>1,952</u>	<u>8,795</u>
Total assets less current liabilities		<u>100,979</u>	<u>107,802</u>
Creditors: amounts falling due after more than one year	17	(74,803)	(71,671)
Provisions for liabilities and charges			
Deferred tax	18	(3,172)	(2,920)
Net assets		<u>23,004</u>	<u>33,211</u>
Capital and reserves			
Called up share capital	20	1,000	1,000
Share premium account	20	18,542	18,542
Capital redemption reserve	20	6,137	6,137
Profit and loss account	20	(1,902)	8,192
Cash flow hedge reserve	19	(773)	(660)
		<u>23,004</u>	<u>33,211</u>

The financial statements of Indigo Pipelines Holdco 1 Limited, registered number 08998658 were approved by the Board of Directors and authorised for issue on 25 June 2021.

Signed on behalf of the Board of Directors



Charles Hazelwood
Director

Indigo Pipelines Holdco 1 Limited**Company Statement of Financial Position
As at 31 March 2021**

	Notes	2021 £'000	2020 £'000
Fixed Assets			
Investments	14	<u>5,000</u>	<u>5,000</u>
Current assets			
Debtors - due within one year	15	5	10
Debtors - due after one year	15	21,420	21,420
Cash		<u>18</u>	<u>3,037</u>
		21,443	24,467
Creditors: amounts falling due within one year	16	(79)	(82)
Total assets less current liabilities		<u>26,364</u>	<u>29,385</u>
Net assets		<u>26,364</u>	<u>29,385</u>
Capital and reserves			
Called up share capital	20	1,000	1,000
Share premium account	20	6,137	6,137
Capital Redemption Reserve	20	18,542	18,542
Profit and loss account	20	<u>685</u>	<u>3,706</u>
		<u>26,364</u>	<u>29,385</u>

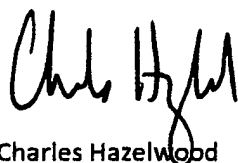
The profit for the financial year dealt with in the financial statement of the parent company was £9,479,000 (2020: £2,976,000)

The financial statements of Indigo Pipelines Holdco 1 Limited, registered number 08998658 were approved by the Board of Directors and authorised for issue on 25 June 2021.

The above results are derived from continuing operations unless otherwise noted.

The accompanying notes form part of these financial statements.

Signed on behalf of the Board of Directors



Charles Hazelwood
Director

Indigo Pipelines Holdco 1 Limited

**Consolidated Statement of changes in equity
For the year ended 31 March 2021**

		Called up Share Capital	Share Premium Account	Capital redemption reserve	Cash flow Hedge Reserve	Profit and Loss Account	Total Equity
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2019		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>-</u>	<u>6,219</u>	<u>31,898</u>
Profit for the financial year		-	-	-	-	1,973	1,973
Total comprehensive income							
Equity dividends paid	11	-	-	-	-	-	-
Movement in the value of financial instruments	8, 19	-	-	-	(660)	-	(660)
At 31 March 2020		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>(660)</u>	<u>8,192</u>	<u>33,211</u>
Profit for the financial year		-	-	-	-	2,406	2,406
Total comprehensive income							
Equity dividends paid	11	-	-	-	-	(12,500)	(12,500)
Movement in the value of financial instruments	8, 19	-	-	-	(113)	-	(113)
At 31 March 2021		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>(773)</u>	<u>(1,902)</u>	<u>23,004</u>

Indigo Pipelines Holdco 1 Limited

**Company Statement of changes in equity
For the year ended 31 March 2021**

		Called up Share Capital	Share Premium Account	Capital redemption reserve	Profit and Loss Account	Total Equity
	Notes	£'000	£'000	£'000	£'000	£'000
At 1 April 2019		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>730</u>	<u>26,409</u>
Profit for the financial year		-	-	-	2,976	2,976
Total comprehensive income						
Equity dividends paid	11	-	-	-	-	-
At 31 March 2020		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>3,706</u>	<u>29,385</u>
Profit for the financial year		-	-	-	9,479	9,479
Total comprehensive income						
Equity dividends paid	11	-	-	-	(12,500)	(12,500)
At 31 March 2021		<u>1,000</u>	<u>18,542</u>	<u>6,137</u>	<u>685</u>	<u>26,364</u>

Indigo Pipelines Holdco 1 Limited

**Consolidated cash flow statement
For the year ended 31 March 2021**

		2021	2020
	Note	£'000	£'000
Net cash flows from operating activities	21	4,752	7,625
Cash flows from investing activities			
Purchase of tangible fixed assets		(3,303)	(5,422)
Purchase of intangible assets		(369)	(452)
Interest received		6	38
Net cash flows from investing activities		(3,666)	(5,836)
Cash flows from financing activities			
Dividends paid		(12,500)	-
New bank loans raised		3,563	4,669
Net cash flows from financing activities		(8,937)	4,669
Net (decrease) increase in cash and cash equivalents		(7,851)	6,458
Cash and cash equivalents at beginning of period		14,689	8,231
Cash and cash equivalents at end of period		6,838	14,689
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		6,838	14,689

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

1. Principal accounting policies

The principal accounting policies are summarised below and have been applied consistently throughout the year and to the preceding year.

General Information and basis of accounting

Indigo Pipelines Holdco 1 Limited is a limited liability company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

The financial statements have been prepared under the historical cost convention, with the exception of derivatives at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Group is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Indigo Pipelines Holdco 1 Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, remuneration of key management personnel and intra-group transactions. There are no share based payment arrangements and no employees in this entity.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 31 March 2021 and have been prepared under the historical cost convention and in accordance with FRS 102.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

As permitted by Section 408 of the Companies Act 2006, the Income Statement or Statement of Comprehensive of the company are not presented as part of these financial statements. The company's result for the year, determined in accordance with the Act was a profit after tax of £9,479,000 (2020: £2,976,000).

Going concern

The Board of Directors expects that the strong operational and financial performance of the business will continue into 2021/22 and beyond, in line with its business plan.

The Group has borrowing arrangements in place with external lenders, which are subject to regular covenant testing. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to continue to be profitable and cash generative going forward. The forecasts give due regard to available banking

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

facilities and show that the Group and Company will continue to remain within related covenant requirements.

Impact of Covid-19 Pandemic

The Covid-19 Pandemic has not had a material impact on the results of the Company, or the Group, for the year ending 31 March 2021.

Indigo Pipelines revenue is received for transporting gas through its pipes. There are, broadly, two different types of gas connection – Domestic and Commercial.

Domestic gas connections

The revenue received for Domestic Gas connections is in effect a standing charge for the provision of the pipe. The revenue does not vary with the volume of gas transported through it.

Approximately 95% of Indigo Pipeline's Transportation Revenue is for Domestic Gas connections.

The UK government has put extensive measures in place to protect jobs. These measures enable end consumers to continue paying their gas bills, thus reducing the risk that gas suppliers and shippers suffer from cashflow problems that would result in them failing to meet their obligations. As these measures come to an end there is the potential for higher levels of end consumers defaulting on their energy bills and management regularly monitors this.

In the year to 31 March 2021, new connections growth meant that the revenue received for domestic gas connections increased by 4.5% compared to the prior year.

Consequently, management do not believe that there is a significant risk of a material reduction to domestic gas connection revenue.

Commercial gas connections

The revenue for Commercial Gas connections is linked to the quantity of gas consumed. The quantity consumed is only updated on an annual basis. Only 5% of Indigo's Transportation Revenue is for Commercial Gas connections.

In the year to 31 March 2021, the revenue received for commercial gas connections has remained at similar levels to the prior year. There is the potential that there may be some reductions in the medium term depending on the longer-term impacts of the Pandemic to certain business sectors. However, to put this into context, the increase in revenues from new domestic gas connections expected in FY2022 would be broadly equivalent to the entire revenue generated from commercial gas connections.

During the year there have been several smaller suppliers that have entered administration. In these circumstances the industry regulator, Ofgem, has appointed a 'Supplier of Last Resort' to take over the supply to end customers. Whilst the primary objective for Ofgem is to protect the interests of gas and electricity consumers, by appointing a 'Supplier of Last Resort' it also mitigates the extent to which the Company is exposed to credit risk. More than 99.5% of receivables have been collected in the year to 31 March 2021.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

Reverse stress testing has been applied to the Group's forecasts for the financial year ending 31st March 2022. The cost base, including interest payable on the majority of the Group's loan funding, is fixed and predictable. It would take a 40% reduction in transportation receivables for the Group to be in a position where it no longer generates cash from its operations. Given the strong performance achieved during the year to 31 March 2021 this level of reduction is not deemed likely.

The Group's cash balance at 31 March 2021 was £6,838,000. In addition under its Senior Facilities Agreement (dated 14 March 2019) the Group has access to a £10m Revolving Facility and a £12.5m A2 Facility, both of which may be utilised for the general corporate and working capital purposes of the Group (excluding for Distributions).

On this basis the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Turnover

Turnover, stated exclusive of Value Added Tax, relates to gas network distribution income in the UK and is recognised when the significant risks and rewards are considered to have been transferred to the customers.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provision of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

- (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
- (d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Interest rate swap agreements

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

(v) Hedge accounting

The Group designates certain derivatives as hedging instruments in cash flow hedges.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss or when the hedging relationship ends, except for the hedging of inventory purchases when the amount is reclassified from the hedging reserve and included in the cost of inventory at initial recognition.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to the income statement.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

IBOR reform

In December 2019, the FRC issued Interest Rate Benchmark Reform – Amendments to FRS102. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Group as it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate debt, linked to GBP LIBOR, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to the income statement.

The Group has chosen to early apply the amendments to FRS102 for the reporting period ending 31 December 2019, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

Financial Risk

The Group is exposed to the GBP LIBOR interest rate benchmark within its hedge accounting relationships.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition away from LIBOR (including GBP LIBOR, USD LIBOR and JPY LIBOR) to the Sterling Overnight Index Average Rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Tokyo Overnight Average Rate (TONA) respectively. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

The Group has an IBOR transition programme under the governance of the Chief Financial Officer who reports to the Board. IBOR exposures exist within the Group's floating rate debt and interest rate swaps. The Group has an action plan to enable a smooth transition to alternative benchmark rates.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

None of the Group's current GBP LIBOR linked contracts include adequate and robust fall-back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's interest rate swaps, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and the Group will continue discussions with its banks with the aim to implement this language into its ISDA agreements in the second half of 2021.

The Group has continued discussions with its lenders to amend the GBP LIBOR bank loan to relevant reference benchmark interest. The Group plans to finalise this amendment in the second half of 2021.

Details of the hedging instruments and hedged items in scope of the amendments due to interest rate benchmark reform are included in Note 20.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Intangible Fixed Assets

Intangible fixed assets are stated at cost, net of amortisation and any provision for impairment. Amortisation is only charged at the point from which the intangible asset is deemed to be in use. Amortisation is provided on all intangible fixed assets, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

IT development costs

IT development costs attributable to the Group's systems for managing its gas and electricity connections have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

IT development costs are amortised over a period of 5 years.

Cost of securing an IDNO operating licence

The Company has directly incurred costs to acquire a Licence to operate as an Independent Distribution Network Operator from the Industry Regulator.

The Operating Licence Intangible Fixed Asset is amortised over a period of 10 years.

Tangible Fixed Assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset to nil on a straight-line basis over its expected useful life, as follows:

Gas distribution networks - 40 years

Electricity distribution networks – 40 years

Computer Equipment – 3 years

Goodwill

Goodwill is amortised over 20 years

Fixed Asset Investments

Investments in subsidiaries are stated at cost, net of any provision for impairment.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Borrowing costs

The Company does not capitalise borrowing costs that are directly attributable to the construction of tangible fixed assets. These are expensed in the period in which they are incurred.

Interest receivable

Interest receivable is reported on an accruals basis, using the effective interest method.

Customer contributions and capital grants

Customer contributions and capital grants are recorded as deferred income and released to distribution costs in the profit and loss account over the estimated useful life of the related fixed asset.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the current period the directors do not consider there to be any critical accounting judgments or any key source of estimation uncertainty.

Indigo Pipelines Holdco 1 Limited**Notes to the financial statements
For the year ended 31 March 2021****3. Turnover**

An analysis of the Group's turnover by class of business is set out below.

	2021	2020
	£'000	£'000
Gas network transportation and meter income	18,682	19,167
Other Income	64	72
	<u>18,746</u>	<u>19,239</u>

4. Operating profit is arrived at after charging/(crediting)

	2021	2020
	£'000	£'000
Depreciation	2,689	2,598
Amortisation	91	27
Amortisation of goodwill	824	824
Release of deferred income in relation to customer contributions and capital grants	(592)	(592)
	<u></u>	<u></u>

The amortisation of goodwill is included in Administrative expenses.

The analysis of auditor's remuneration is as follows.

	2021	2020
	£'000	£'000
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	12	3
The audit of the company's subsidiaries	37	29
Total audit fees	<u>49</u>	<u>32</u>
Taxation compliance services	33	33
Other advisory services	-	4
Ofgem reporting	2	2
Total non-audit fees	<u>35</u>	<u>39</u>

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements For the year ended 31 March 2021

5. Staff costs and numbers

Staff employed at the end of the year are shown below

	2021 £'000	2020 £'000
Salaries and Wages	710	546
Social security payments	97	64
Pension contributions	12	3
Employee bonuses and Long-Term Incentives	176	329
	<u>995</u>	<u>942</u>

Annual bonus plan

The Group operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

Long term incentive plans

The Group operates a cash-settled long-term incentive plan at an operating business level for certain members of management. The plan is based on the business's performance over a five-year period against budget on a variety of measures, including connections growth, an adjusted operating profit measure. A liability for the plan is raised on the estimated amount payable in terms of the incentive scheme plans.

Pension contributions

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. The assets of the plan are held separately from the Company in independently administered funds.

Staff numbers

	2021	2020
Executive and directors of Indigo Pipelines Ltd	6	6
Senior managers	1	1
Other employees	5	4
Total employees	<u>12</u>	<u>11</u>

Indigo Pipelines Holdco 1 Limited**Notes to the financial statements
For the year ended 31 March 2021****6. Directors' remuneration**

	2021	2020
	£'000	£'000
Directors' emoluments	584	516
Pension contributions to money purchase pension schemes	7	2
	<u>591</u>	<u>518</u>

Indigo Pipelines Limited is the only company in the group which remunerates Directors.

The highest paid director received remuneration of £183,244 (2020: £185,200). The Group did not make any payments in the current or prior year to a defined contribution scheme in respect of the highest paid director.

During the year, retirement benefits were accruing to 1 director (2020: 1) in respect of defined contribution pension schemes.

No directors were paid or are due to be paid based on arrangements falling within the meaning of s33F(s) Gas Act 1986.

7. Interest receivable and similar income

	2021	2020
	£'000	£'000
Interest receivable from banks	6	37
Total interest receivable	<u>6</u>	<u>37</u>

8. Interest payable and similar expenditure

	2021	2020
	£'000	£'000
Interest payable to banks	1,376	1,377
Agency and commitment fees	350	385
Amortisation of debt arrangement fees	327	326
Movement in value of financial instruments not designated as a hedge	(279)	-
	<u>1,774</u>	<u>2,088</u>
Other comprehensive income		
Movement in value of financial instruments designated as a hedge	(166)	660
Movement in value of financial instruments not designated as a hedge	279	-
	<u>113</u>	<u>660</u>
	<u>1,887</u>	<u>2,748</u>

Indigo Pipelines Holdco 1 Limited**Notes to the financial statements
For the year ended 31 March 2021****9. Taxation**

	2021	2020
	£'000	£'000
Current tax:		
United Kingdom corporation tax	579	601
Adjustments in respect of previous years	23	-
Total Corporation tax	<u>602</u>	<u>601</u>
Deferred tax:		
Origination and reversal of timing differences	252	83
Effect of changes in tax rates	-	299
Total deferred tax	<u>252</u>	<u>382</u>
Total tax on profit on ordinary activities	<u>854</u>	<u>983</u>

The standard rate of tax for the period, based on the UK standard rate of corporation tax is 19% (2020 – 19%).

The charge for the period can be reconciled to the profit per the Income Statement as follows:

	2021	2020
	£'000	£'000
Profit before tax	<u>3,260</u>	<u>2,956</u>
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	619	562
Effects of:		
Expenses not deductible	238	158
Income not taxable	(53)	-
Adjustments in respect of previous years	18	-
Gains/rollover relief	32	(125)
Tax rate changes	-	298
Deferred tax not recognised	-	90
Tax charge for period	<u>854</u>	<u>983</u>

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements For the year ended 31 March 2021

Increase in the UK standard rate of corporation tax from 1st April 2023

The Budget announcement on 3 March 2021 included a proposal to increase the UK standard rate of corporation tax to 25% effective from 1 April 2023. The newly announced rate is included in the Finance Bill 2021. The rate is expected to be substantively enacted over the coming months via the Bill being passed by the House of Commons.

As the Company's balance sheet is prepared to a date before the substantive enactment of the new rate of corporation tax there is no deferred tax re-measurement.

The Company does not have any deferred tax balances at 31 March 2021 and there is no material effect requiring disclosure.

The Group has deferred tax balances and had the rate been substantively enacted by the balance sheet date the impact would have been an increase in the tax charge of £1,019,000, and a corresponding increase in the deferred tax liability of £1,019,000.

10. Profit attributable to the Company

As permitted by Section 408 of the Companies Act 2006, the Income Statement or Statement of Comprehensive of the company are not presented as part of these financial statements. The company's result for the year, determined in accordance with the Act was a profit after tax of £9,479,000 (2020: £2,976,000).

11. Dividends paid during the year

	2021	2020
	£'000	£'000
Interim dividend of £9,500 (2020: £nil) per ordinary share	9,500	-
Final dividend of £3,000 (2020: £nil) per ordinary share	3,000	-
	<u>12,500</u>	<u>-</u>

Indigo Pipelines Holdco 1 Limited

**Notes to the financial statements
For the year ended 31 March 2021**

**12. Intangible fixed assets
Group**

	AUC - IT development costs	Cost of securing an IDNO operating licence	IT development costs	Goodwill	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 April 2020	51	401	134	16,485	17,071
Additions	212	96	84	-	392
Transfers	(263)	-	263	-	-
At 31 March 2021	<u>-</u>	<u>497</u>	<u>481</u>	<u>16,485</u>	<u>17,463</u>
Depreciation:					
At 1 April 2020	-	-	60	4,602	4,662
Charge for the year	-	23	68	824	915
At 31 March 2021	<u>-</u>	<u>23</u>	<u>128</u>	<u>5,426</u>	<u>5,577</u>
Net book value					
At 31 March 2021	<u>-</u>	<u>474</u>	<u>353</u>	<u>11,059</u>	<u>11,886</u>
At 31 March 2020	<u>51</u>	<u>401</u>	<u>74</u>	<u>11,883</u>	<u>12,409</u>

Indigo Pipelines Holdco 1 Limited

**Notes to the financial statements
For the year ended 31 March 2021**

13. Tangible fixed assets
Group

	Computer Equipment	Gas Distribution Network Assets	Gas and Electricity Distribution Networks Under Construction	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 April 2020	7	106,661	989	107,657
Additions	1	2,175	1,056	3,232
Transfers	-	513	(513)	-
At 31 March 2021	<u>8</u>	<u>109,349</u>	<u>1,532</u>	<u>110,889</u>
Depreciation:				
At 1 April 2020	2	21,057	-	21,059
Charge for the year	2	2,687	-	2,689
At 31 March 2021	<u>4</u>	<u>23,744</u>	<u>-</u>	<u>23,748</u>
Net book value				
At 31 March 2021	<u>4</u>	<u>85,605</u>	<u>1,532</u>	<u>87,141</u>
At 31 March 2020	<u>5</u>	<u>85,604</u>	<u>989</u>	<u>86,598</u>

At 31 March 2021 the Company had committed to pay circa £244,150 (2020: £315,551) for new gas connections that were energised in the month of March 2021. The Company is charged on a quarterly basis and the connections for March 2021 will not be invoiced until the end of June 2021 when the value can be ascertained. These have been accrued for at the estimated cost of £244,150 (2020: £315,551) and included within additions above.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements For the year ended 31 March 2021

14. Fixed asset investments

	Group	Company Subsidiary Undertaking
	£'000	£'000
Investment in Indigo Pipelines Holdco 2 Limited at 31 March 2021 and 31 March 2020	<u>-</u>	<u>5,000</u>

Subsidiary undertakings	% holding ordinary shares	Principal activity	Registered office
Indigo Pipelines Holdco 2 Limited	100	Holding Company	Loddon Reach Reading Road, Arborfield , Reading, Berkshire, RG2 9HU
Indigo Pipelines Limited*	100	Gas Transporter	15 Diddenham Court, Lambwood Hill, Grazeley, Reading, England, RG7 1JQ
Indigo Power Limited*	100	Company established to become an Electricity Distributor	15 Diddenham Court, Lambwood Hill, Grazeley, Reading, England, RG7 1JQ

*Held by Indigo Pipelines Holdco 2 Limited

The directors believe that the carrying value of the investments is supported by their net assets.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

15. Debtors: amounts falling due within one year

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Amounts falling due with one year				
Trade debtors	127	-	-	-
Prepayments and accrued income	1,696	-	1,782	-
Other debtors	30	-	-	-
Group relief receivable	-	5	-	10
	<u>1,853</u>	<u>5</u>	<u>1,782</u>	<u>10</u>

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year				
Loans to subsidiary undertakings	-	21,420	-	21,420

The unsecured loan to Indigo Pipelines Holdco 2 Limited, a subsidiary company, is repayable on 14th March 2024. There is no interest payable on the loan.

16. Creditors: amounts falling due within one year

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Amounts falling due with one year				
Trade creditors	3,029	36	4,038	36
Accruals and deferred income	2,604	15	2,784	18
Corporation tax	130	-	130	-
Other creditors	976	28	724	28
	<u>6,739</u>	<u>79</u>	<u>7,676</u>	<u>82</u>

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements
For the year ended 31 March 2021

17. Creditors: amounts falling due after more than one year

	Group	Company	Group	Company
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Amounts falling due after one year				
Bank loans	58,232	-	54,669	-
Debt issue costs after amortisation	(966)	-	(1,293)	-
Derivative financial instruments	986	-	1,152	-
Accruals and deferred income	16,551	-	17,143	-
	<u>74,803</u>	<u>-</u>	<u>71,671</u>	<u>-</u>
			Group	Group
			2021	2020
			£'000	£'000
Bank loans				
Amounts due less than one year			-	-
Between one and two years			-	-
Between two and five years			<u>58,232</u>	<u>54,669</u>
			<u>58,232</u>	<u>54,669</u>

The Company's debt facilities comprise a fully drawn term facility, together with additional facilities available but undrawn at the period end. The new loan agreement was entered into on 14 March 2019 and is repayable in one instalment on the 5th anniversary of the agreement. Interest is charged at a margin over LIBOR and the facilities are secured by fixed and floating charges by the Company and guarantees from other group undertakings.

Interest is charged at a margin over LIBOR, however in relation to the acquisition facility, the Company has entered into a hedging instrument to fix future interest rate payments (note 19). The facilities are secured by fixed and floating charges.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements For the year ended 31 March 2021

18. Deferred taxation

	2021	2020
	£'000	£'000
Group		
Provision at start of year	2,920	2,538
Charged to profit & loss accounts	252	382
Provision at end of year	<u>3,172</u>	<u>2,920</u>
	2021	2020
	£'000	£'000
Group		
Accelerated capital allowanced	3,414	3,181
Other timing differences	(242)	(261)
Provision for deferred tax	<u>3,172</u>	<u>2,920</u>

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Group.

The deferred tax balance includes an amount of £187,000 (2020: 219,000) relating to financial instruments where the movement in value is recognised as other comprehensive income.

19. Derivative financial instruments

Indigo Pipelines HoldCo2 Ltd (IPH2) has elected to 'fix' the interest rate of debt issued on 14th March 2019 to protect the organisation from the cash flow risk of increases in interest rates

IPH2 is exposed to the risk of a realised cash loss arising from a potential increase in LIBOR interest rates. IPH2 has a £50,000,000 loan for which interest is calculated as:

The rate of interest on each loan advance is given for each selected Interest Period as the percentage rate per annum which is the aggregate of the applicable:

- (a) Margin; and
- (b) LIBOR,

Therefore, IPH2's strategy is to mitigate the risk of an increase in interest rates on IPH2's cash flows by entering into an interest rate swap agreement. This allows the variable interest rate to effectively be exchanged for a fixed rate. The fixed rate is payable to the counterparty. The variable rate (LIBOR) is due to IPH2. Consequently, any increase in that variable rate directly offsets the increase on the variable (LIBOR pegged) interest rate on the loans.

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements

For the year ended 31 March 2021

The interest rate swaps settle on a six-monthly basis. The floating rate on the interest rate swaps is six months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as fair value hedges in respect of interest rates.

During the year, the hedge was 100% effective in hedging the fair value exposure to interest rate movements. The carrying amount of the financial instrument increased by £166k with the gain reported in the cash flow hedge reserve within other comprehensive income.

The interest rate swap was not designated as a hedge between 14th March and 31st March 2019. A gain of £279k was recognised in profit or loss in the year for the movement in the fair value of financial instruments not designated as a hedge, with a corresponding adjustment recognised in the cash flow hedge reserve within other comprehensive income.

Movements recognised in cash flow hedge reserve

	2021	2020
	£'000	£'000
Movement in value of financial instruments designated as a hedge	166	(660)
Movement in value of financial instruments not designated as a hedge	(279)	-
	<u>(113)</u>	<u>(660)</u>

Interest rate swap contracts designated in hedging relationships

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Average contract fixed interest rate	Notional principal value				Fair value	
	2021	2021	2020	2020	2021	2020
	%	£'000	%	£'000	£'000	£'000
Pay fixed, received						
floating 2 to 5 years	1.272%	50,000	1.272%	50,000	986	1,152
		<u>50,000</u>		<u>50,000</u>	<u>986</u>	<u>1,152</u>

Indigo Pipelines Holdco 1 Limited**Notes to the financial statements
For the year ended 31 March 2021****20. Share capital and reserves**

	2021	2020
	£'000	£'000
Allotted, called up and paid:		
1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The Capital Redemption Reserve was created following the redemption of Redeemable Ordinary Shares purchased wholly out of the Company's distributable reserves.

21. Cash flow statement**Reconciliation of operating profit generated by operations**

	2021	2020
	£'000	£'000
Operating profit	5,028	5,007
Adjustments for:		
Amortisation of goodwill	824	824
Depreciation	2,689	2,596
Amortisation	91	27
Release of customer contributions and capital grants	(592)	(592)
Operating cash flow before movement in working capital	<u>8,040</u>	<u>7,862</u>
Decrease/(Increase) in debtors	(70)	1,582
(Decrease)/Increase in creditors	(1,064)	466
Cash generated by operations	<u>6,906</u>	<u>9,910</u>
Interest paid	(1,725)	(1,762)
Income taxes paid	(429)	(523)
Net cash from operating activities	<u>4,752</u>	<u>7,625</u>

Indigo Pipelines Holdco 1 Limited

Notes to the financial statements For the year ended 31 March 2021

Reconciliation of movements in net debt

	At 31 March 2020	Cash flows	Amortisation of financing costs	At 31 March 2021
	£'000	£'000	£'000	£'000
Cash at bank and in hand	14,689	(7,851)	-	6,838
Bank loans	(53,376)	(3,563)	(327)	(57,266)
Net debt	<u>(38,687)</u>	<u>(11,414)</u>	<u>(327)</u>	<u>(50,428)</u>

22. Ultimate Holding Company

The immediate parent undertaking is Edingho Bidco Limited.

Edingho BidCo Limited is the ultimate parent, a company ultimately controlled by AIP Holdings Limited. Mr. Toor, a director of the Company, and members of his close family, control the Company as a result of controlling, directly or indirectly, 100 per cent of the issued share capital of the Company.

Edingho Bidco Limited prepares the consolidated financial statements for the Group. Edingho Bidco Limited's consolidated financial statements represent the smallest and largest group to consolidate these financial statements. Copies of Edingho Bidco Limited consolidated financial statements can be obtained from the Company Secretary C/O Alter Domus (UK) Limited, 18 St Swithin's Lane, London, United Kingdom, EC4N 8AD.

23. Related party transactions

The Company has a loan to Indigo Pipelines Holdco 2 Limited. The loan is for £21,419,690 and is repayable on 14th March 2024. The interest rate is 0%.