

ESP Utilities Group Limited

Report and Financial Statements

Year Ended

31 December 2018

Registered number 02612105

ESP Utilities Group Limited

Report and financial statements for the year ended 31 December 2018

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Directors

T W Butler
N J Clark
A Dellis
N Horler
P Miles
K O'Connor
S Schwengber
B Sottomayor
V Spiers
S Williams

Secretary and registered office

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

Company number

02612105

Auditor

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

ESP Utilities Group Limited

Strategic report for the year ended 31 December 2018

Principal activities and future developments

The principal activity of the ESP Utilities Group Limited ("Company") is a holding company. The Company has five trading subsidiaries (together "the Group"): one subsidiary is an electrical distribution company engaged in the development of electrical distribution as an independent operator together with four subsidiaries operating as gas transporter companies engaged in the development of gas pipelines, the transportation of gas and metering services throughout mainland UK.

The Group is ultimately controlled by 3i MIA Holding Limited, who are wholly owned by 3i Managed Infrastructure Acquisitions LP (3i MIA LP). 3i MIA LP is managed by 3i Investments plc, which is a wholly owned subsidiary of 3i Group plc. The general partner of 3i MIA LP is 3i Managed Infrastructure GP (2017) LLP. 3i Group plc is listed on the London Stock Exchange.

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

Financial review

The consolidated statement of comprehensive income is set out on page 9 and shows turnover for the period of £62,999,000 (2017: £53,564,000). Profit for the period was £17,734,000 (2017: £14,718,000).

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

The number of installed connections as at the end of the year was 632,627 (including 161,665 electricity connections) with a growth of 11.5% in the year, compared to 12.8% in the previous year. This is directly related to the build out of the Group's order book from previous years.

Turnover has increased during the year due to the increase in connections mentioned above. Based on the current economic forecasts and given the competitive market conditions, expectations for 2019 are that turnover will continue to grow as the order book for both gas and electricity connections is installed.

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

The Group's management 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.

ESP Utilities Group Limited

Strategic report for the year ended 31 December 2018 (*continued*)

Principal risks and uncertainties

The market for the adoption of new housing networks is competitive.

The availability of new housing connections from UIPs is dependent on the overall housing market, which is dependent upon a positive economic outlook.

A large proportion of the infill market the Group targets is driven in part by government programmes to bring more affordable (and lower CO2 emitting) fuel to social housing. This market is forecast to be challenging for the foreseeable future due to continued austerity restricting public spending.

The ownership and operation of gas pipelines represents approximately 41% (2017: 45%) of the Group's revenue. The Office of Gas and Electricity Markets ("Ofgem") regulates the activities of the Group, including the transportation tariffs that the Group charges. In 2004 Ofgem introduced the Relative Price Control ("RPC") mechanism. The purpose of RPC is to keep parity between the charges levied by iGTs, including the Group's, and the operators of the Gas Distribution Networks. RPC allows the Group to increase prices partly in line with the Retail Price Index ("RPI"). Therefore the Group's income will vary in accordance with RPI.

The Group also operates and maintains meters connected to its gas pipelines. Meter income represents approximately 20% (2017: 18%) of the Group's revenue. The meter market in the UK has been open to competition since 2004 and over the next 5 years it is forecast that dumb meter revenue will materially decline as a consequence of the Government mandated smart meter roll out. However the Group business model predicts an increase in the smart meter portfolio as new meters are installed with new connections going forward.

The ownership and operations of electricity market represents 39% (2017: 35%) of the Group's revenue; the importance of this market is increasing each year as the market matures and more connections are installed on iDNO networks. Historically, electricity connections installed were adopted by the incumbent DNOs until 2001 when the market was opened to competition allowing iDNOs to adopt electricity connections. The regulatory changes in April 2010 to standardise the iDNOs' tariffs has opened up most of the market to competition, providing greater opportunities to iDNOs. As the market continues to mature it is expected that the iDNOs will obtain a similar market presence as the iGTs in the gas market.

For and on behalf of the Board



P Miles
Director

Date: 22.5.19.

ESP Utilities Group Limited

Report of the directors for the year ended 31 December 2018

A review of the business and principal risks and uncertainties has been included with the strategic report on page one.

Directors

The directors in office during the period were as follows:

T W Butler	
N J Clark	
A Dellis	
N Horler	
P Miles	(appointed 21 January 2019)
K O'Connor	(appointed 10 December 2018)
S Schwengber	(appointed 13 July 2018)
B Sottomayor	
V Spiers	
R Wallace	(resigned 13 June 2018)
S Williams	

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 Group'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 Group's auditor is aware of that information.

Dividend

A dividend of £nil was paid during the year (2017: £215,739,483).

Financial instruments

Liquidity risk and cash flow risk

The Company holds financial instruments to finance its operations. Operations are financed by a mixture of retained profits and parent company loans. The Group has £2,195,000 (2017: £2,182,000) of debt outstanding with its parent company. The directors have controls in place to manage cash flow and maintain interest payments.

Credit risk

Credit risk arises principally from the Group'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 Group'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.

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 one.

ESP Utilities Group Limited

Report of the directors for the year ended 31 December 2018 (*continued*)

Auditor

A resolution to reappoint BDO LLP will be proposed at the next Annual General Meeting.

From and on behalf of the Board



P Miles
Director

Date: 22.5.19.

ESP Utilities Group Limited

Statement of the directors' responsibilities for the year ended 31 December 2018

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ESP Utilities Group Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESP UTILITIES GROUP LIMITED

Opinion

We have audited the financial statements of ESP Utilities Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company balance sheet, the consolidated and company statement of changes in equity and the consolidated statement of cash flows, and the notes to the financial statements, including a summary of significant accounting policies. 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)*.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

ESP Utilities Group Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESP UTILITIES GROUP LIMITED (CONT)

We have nothing to report in this regard.

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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

ESP Utilities Group Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESP UTILITIES GROUP LIMITED (CONT)

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Anna Draper (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Gatwick, UK

23.05.2019

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

ESP Utilities Group Limited

Consolidated statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	3	62,999	53,564
Cost of sales		(26,993)	(20,957)
Gross profit		36,006	32,607
Administrative expenses		(8,510)	(8,547)
Group operating profit	4	27,496	24,060
Other interest receivable and similar income		11	29
Interest payable and similar charges	7	(8,888)	(10,527)
Profit on ordinary activities before taxation		18,619	13,562
Taxation on profit on ordinary activities	8	(885)	1,156
Profit for the financial year and total comprehensive income for the year		17,734	14,718

The notes on pages 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated balance sheet at 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Tangible assets	10		275,487		251,508
Current assets					
Debtors	12	8,535		12,175	
Cash at bank and in hand		10,287		7,793	
		18,822		19,968	
Creditors: amounts falling due within one year	13	(29,414)		(26,260)	
Net current liabilities			(10,592)		(6,292)
Total assets less current liabilities			264,895		245,216
Creditors: amounts falling due after more than one year	14		(252,161)		(251,101)
Provisions for liabilities	16		(9,482)		(8,597)
Net assets/(liabilities)			3,252		(14,482)
Capital and reserves					
Called up share capital	18		156,426		156,426
Profit and loss account			(153,174)		(170,908)
Equity attributable to owners of the parent company			3,252		(14,482)

The financial statements were approved by the Board of Directors and authorised for issue on 22.5.19. and were signed on its behalf by:

P Miles
Director



The notes on pages 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital 2018 £'000	Profit and loss account 2018 £'000	Total equity 2018 £'000	Share capital 2017 £'000	Profit and loss account 2017 £'000	Total equity 2017 £'000
1 January	156,426	(170,908)	(14,482)	14,721	30,113	44,834
Comprehensive income for the year	-	17,734	17,734	-	14,718	14,718
Profit for the year	-	17,734	17,734	-	14,718	14,718
Total comprehensive income for the year	-	17,734	17,734	-	14,718	14,718
Contributions by and distributions to owners						
Dividends	-	-	-	-	(215,739)	(215,739)
Share issue	-	-	-	141,705	-	141,705
Total contributions by and distributions to owners	-	-	-	141,705	(215,739)	(74,034)
31 December	156,426	(153,174)	3,252	156,426	(170,908)	(14,482)

The notes on pages 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the financial year		17,734	14,718
Adjustments for:			
Dividends paid		-	(215,739)
Depreciation and amortisation of fixed assets	10	9,284	7,634
Net interest payable		8,878	10,498
Taxation expense/(credit)	8	885	(1,156)
Decrease/(increase) in trade and other debtors		3,639	(1,855)
Increase in trade creditors		544	308
(Gain) on disposal of tangible assets		(53)	(77)
Cash from operations		40,911	(185,669)
Interest paid		(7,581)	(8,452)
Taxation paid		-	-
Net cash generated from operating activities		33,330	(194,121)
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		88	29
Purchases of tangible fixed assets	10	(30,830)	(27,900)
Interest received		11	29
Net cash used in investing activities		(30,731)	(27,842)
Cash flows from financing activities			
Intercompany borrowings		-	7,196
Loan notes issued		-	224,000
Debt issue costs incurred		(105)	(5,926)
Net cash from financing activities		(105)	225,270
Net decrease in cash and cash equivalents		2,494	3,307
Cash and cash equivalents at beginning of year		7,793	4,486
Cash and cash equivalents at end of year		10,287	7,793
Cash and cash equivalents comprise:			
Cash at bank and in hand		10,287	7,793
Bank overdrafts		-	-
		10,287	7,793

Non cash flow fixed asset additions of £2,486,579 (2017: £2,061,504) have been accrued in the year.

The notes on page 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

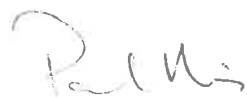
Company balance sheet at 31 December 2018

	Note	2018 £'000	2018 £'000	2017 *as restated £'000	2017 *as restated £'000
Fixed assets					
Investments	11		511,705		511,705
Current assets					
Debtors	12	51,206		53,921	
Cash at bank and in hand		637		870	
		51,843		54,791	
Creditors: amounts falling due within one year	13	(22,871)		(25,258)	
Net current liabilities			28,972		29,533
Total assets less current liabilities			540,677		541,238
Creditors: amounts falling due after more than one year	14		-		-
Net assets			540,677		541,238
Capital and reserves					
Called up share capital	18		156,426		156,426
Profit and loss account			384,251		384,812
			540,677		541,238

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a loss for the financial year of £561,082 (2017: £573,877 loss).

The financial statements were approved by the Board of Directors and authorised for issue on 22.5.19.

P Miles
Director



The notes on pages 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

Company statement of changes in equity for the year ended 31 December 2018

	Share capital 2018 £'000	Profit and loss account 2018 £'000	Total equity 2018 £'000	Share capital 2017 £'000	Profit and loss account 2017 £'000	Total equity 2017 £'000
1 January	156,426	384,812	541,238	14,721	52	14,773
Comprehensive profit for the year	-	(561)	(561)	-	(574)	(574)
Loss for the year	-	-	-	-	-	-
Profit on disposal of operating subsidiaries to ESPUG Finance Limited	-	-	-	-	601,073	601,073
Total comprehensive (loss) / profit for the year	-	(561)	(561)	-	600,499	600,499
Contributions by and distributions to owners						
Dividends	-	-	-	-	(215,739)	(215,739)
Share issue	-	-	-	141,705	-	141,705
Total contributions by and distributions to owners	-	-	-	141,705	(215,739)	(74,034)
31 December	156,426	384,251	540,677	156,426	384,812	541,238

The notes on pages 15 to 26 form part of these financial statements.

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2018

1 Accounting policies

ESP Utilities Group Limited is a private limited company 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 preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 2).

Parent company disclosure exemptions

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

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been applied:

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding that at 31 December 2018 the Group had net current liabilities of £10,592,000 (2017: £6,292,000). The Group is dependent for its working capital on funds provided to it by fellow Group companies. A fellow Group company, Zoom Gas Pipelines Limited, has confirmed it will provide further financial support as required to ensure Company is able to meet its liabilities as they fall due in the 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 12 months from the date of approval of these financial statements. Based on this, and the support noted above, the Company will have adequate resources to continue in operational existence for the foreseeable future. On this basis the directors believe it is appropriate to present the accounts on the going concern basis.

On 6 October 2017 ESPUG Finance Limited entered into new loan note agreements to refinance the Groups external debt borrowings. The new facilities consist of lenders providing up to £339m of private loan placements, working capital, capital expenditure and liquidity facilities. The private loan placements have maturities of ten, fifteen and twenty years at fixed rates of interest, as shown in note 14. These loans have an investment grade credit rating of Baa2 from Moody's Investor Services.

The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2018 (*continued*)

1 Accounting policies (*continued*)

Basis of consolidation

The consolidated financial statements present the results of ESP Utilities Group Limited and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between these group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of gas transportation and measurement for gas suppliers, together with electricity distribution charges from its iDNO business during the period. Income from the transport of gas through the Group's pipelines is recognised on the basis of actual or estimated volumes delivered in the financial period and rental income of metering equipment is recognised for rental periods covered by the financial statements. Electricity income is recognised on the basis of actual or estimated consumption in the financial period. 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 to their estimated residual value by equal instalments over their estimated useful lives as follows:

Fixtures, fittings, tools & equipment	4 to 8 years
Gas networks	60 years
Motor vehicles	4 years
Meters	20 years
Prepayment meters	10 years
Electricity networks	40 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

b) Third party contributions

Contributions, from owner-occupiers of premises, which partly offset the capital expenditure on the infill networks, are received at the time of initial connection. These receipts are treated as deferred income that reduces the depreciation charge to the statement of comprehensive income over the useful life of the related assets.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (*continued*)

1 Accounting policies (*continued*)

Impairment of fixed assets and 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.

Investments

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

Pension scheme

The Group operates a defined contributions 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 profit or loss account 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 year end.

ESP Utilities Group Limited

Notes forming part of the financial statements for the year ended 31 December 2018 (*continued*)

1 Accounting policies (*continued*)

Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company's subsidiaries operate and generate 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.
- Where timing differences relate to interests in subsidiaries and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have enacted or substantively enacted by the reporting date.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Reserves

The Group and Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of shares issued.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

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 Group's tangible fixed assets and the Company's fixed asset investments. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Tangible fixed assets are depreciated over their useful lives taking into account residual values where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and industry trends are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (continued)

3 Analysis of Turnover

	2018 £'000	2017 £'000
Analysis by class of business:		
Gas transportation	26,058	24,028
Gas metering	12,660	10,693
Electricity distribution	24,281	18,843
	<u>62,999</u>	<u>53,564</u>

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

4 Operating profit

	2018 £'000	2017 £'000
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	9,284	7,634
Release of deferred income on third party contributions	(690)	(679)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	3	3
Fees payable to the Company's auditor for other services to the Group:		
- The audit of the Company's subsidiaries pursuant to legislation	51	68
- Other services	-	-
Operating lease – land and buildings	232	205
	<u>232</u>	<u>205</u>

5 Employees

Group	2018 £'000	2017 £'000
Staff costs (including directors) consist of:		
Wages and salaries	4,380	4,055
Social security costs	530	492
Cost of defined contribution pension scheme	330	335
	<u>5,240</u>	<u>4,882</u>

The average number of employees for the Group during the year was as follows:

	2018 Number	2017 Number
Gas	55	55
Electricity	22	19
	<u>77</u>	<u>74</u>

Company

The Company does not directly employ any individuals. The Company is however charged a management fee from other Group companies in respect of services provided to this Company.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (continued)

6 Directors' remuneration

	2018 £'000	2017 £'000
Group		
Directors' emoluments	1,472	1,397
Compensation for loss of office	135	-
Group contributions to money purchase pension schemes	112	180

There were seven paid directors during the period (2017: six). The remuneration of the highest paid director who served during the period was as follows:

	2018 £'000	2017 £'000
Directors' emoluments	342	316
Group contributions to money purchase pension schemes	19	35

Company

The directors received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2018 (2017: nil). The Directors are considered to be the only key management personnel.

7 Interest payable and similar charges

	2018 £'000	2017 £'000
Group loan note interest	-	1,609
Group loan interest	174	7,006
Loan note interest	8,714	1,912
	8,888	10,527

8 Taxation on profit on ordinary activities

	2018 £'000	2018 £'000	2017 £'000	2017 £'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	885		(1,191)	
Effect of changes in tax rate	-		-	
Deferred tax prior period	-		35	
		885		(1,156)
Total tax charge / (credit)		885		(1,156)

For further information on deferred tax balances see note 16.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (continued)

8 Taxation on profit on ordinary activities (continued)

Tax reconciliation

	2018 £'000	2017 £'000
Profit on ordinary activity before tax	18,619	13,562
Current tax at 19% (2017: 19.25%)	3,538	2,611
Effects of:		
Expenses not tax deductible	15	15
Prior year adjustment – deferred tax	-	35
Group relief surrendered for nil consideration	(2,564)	(3,974)
Effect of difference in deferred tax rates	(104)	157
	885	(1,156)

9 Parent company loss for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a loss for the financial year of £561,082 (2017: £573,877).

10 Tangible fixed assets

Group	Electricity & Gas Networks £'000	Meters £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
<i>Cost</i>					
At 1 January 2018	266,804	32,037	2,328	532	301,701
Additions	30,251	2,543	288	234	33,316
Disposals	-	(3,419)	-	(228)	(3,647)
At 31 December 2018	297,055	31,161	2,616	538	331,370
<i>Depreciation</i>					
At 1 January 2018	36,967	11,318	1,686	222	50,193
Provision for year	5,563	3,403	181	137	9,284
Disposals	-	(3,419)	-	(175)	(3,594)
At 31 December 2018	42,530	11,302	1,867	184	55,883
<i>Net book value</i>					
At 31 December 2018	254,525	19,859	749	354	275,487
At 31 December 2017	229,837	20,719	642	310	251,508

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (continued)

11 Fixed asset investments

Company

	Investment in subsidiaries £'000
<i>Cost</i>	
At 1 January 2018 and at 31 December 2018	511,705

The undertakings in which the Company has interest at the year end are as follows:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
<i>ESPUG Finance Limited*</i>	<i>England & Wales</i>	<i>100%</i>	<i>Finance & holding company</i>
<i>E.S. Pipelines Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Connections Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Networks Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Pipelines Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Gas transport</i>
<i>ESP Electricity Limited</i>	<i>England & Wales</i>	<i>100%</i>	<i>Independent distribution network operator</i>

*Directly owned

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

12 Debtors

	Group 2018	Group 2017	Company 2018	Company 2017 *as restated
	£'000	£'000	£'000	£'000
Trade debtors	6,029	5,502	-	-
Amounts owed by Group undertakings	-	1,196	50,531	53,171
Other debtors	46	207	28	175
Prepayments and accrued income	1,160	928	4	63
Deposits	1,300	4,342	-	-
Group relief recoverable from fellow subsidiaries	-	-	643	512
	8,535	12,175	51,206	53,921

All debtors are due within one year.

The prior year balance sheet has been restated to reflect a reclassification adjustment to an intercompany debtor and creditor balance which were previously incorrectly offset against each other in the prior year.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (continued)

13 Creditors: amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 *as restated £'000
Trade creditors	19,426	16,154	4	193
Loans due to Group undertakings	2,195	2,182	2,195	2,182
Loan notes due to Group undertakings	-	-	-	-
Loan interest due	1,723	1,627	-	-
Other amounts owed to Group undertakings	-	-	20,653	22,651
Taxation and social security	186	86	-	-
Other creditors	596	751	-	-
Accruals and deferred income	5,288	5,460	19	232
	29,414	26,260	22,871	25,258

Loans due to Group undertakings are currently attracting interest at a fixed rate of 8% (2017: weighted average 7.3% above LIBOR). The loan is repayable on demand.

Please refer to note 12 for details of prior year restatement.

14 Creditors: amounts falling due after more than one year

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Deferred income	32,711	32,744	-	-
Loan notes	219,450	218,357	-	-
	252,161	251,101	-	-

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 released to the statement of comprehensive income account, as a reduction in the depreciation charge, over the useful life of the related assets.

The loan notes are secured by an All Assets charge over the assets of the Group, and are structured as follows :-

£54m at 2.69% Senior Secured Tranche A note due 6th October 2027
£85m at 3.05% Senior Secured Tranche B note due 6th October 2032
£85m at 3.35% Senior Secured Tranche C note due 6th October 2037

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (*continued*)

15 Financial instruments

The Group's financial instruments may be analysed as follows:

	Group 2018 £'000	Group 2017 £'000
Financial assets		
<i>measured at amortised cost:</i>		
Cash at bank	10,287	7,793
Trade debtors	6,029	5,502
Other debtors	46	207
Deposits	1,300	4,342
Financial liabilities		
<i>measured at amortised cost:</i>		
Trade creditors	19,426	16,154
Loans due to Group undertakings	2,195	2,182
Loan note interest	1,723	1,627
Other creditors	596	751
Accrual	5,288	5,461

16 Provisions for liabilities

Group	Deferred taxation 2018 £'000	Deferred taxation 2017 £'000
At 1 January	8,597	9,753
Charged/(credited) to profit or loss	885	(1,156)
At 31 December	9,482	8,597

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

Deferred tax liabilities - Group

	31 December 2018 £'000	31 December 2017 £'000
Difference between accumulated depreciation and amortisation and capital allowances	9,504	9,753
Other timing differences	(22)	(1,156)
	9,482	8,597

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (*continued*)

17 Pensions

Defined contribution scheme

The amount recognised in the statement of comprehensive income account as an expense in relation to the group's defined contribution schemes is £329,303 (2017: £335,029). The balance outstanding at year end was £27,000 (2017: £nil).

18 Share capital

	2018 £'000	2017 £'000
<i>Authorised</i>		
160,000,000 ordinary shares of £1 each	160,000	160,000
<i>Allotted, called up and fully paid</i>		
156,425,517 ordinary shares of £1 each	156,426	156,426

19 Commitments under operating leases

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

	2018 £'000	2017 £'000
Not later than 1 year	232	232
Later than 1 year and not later than 5 years	928	928
Greater than 5 years	523	739
Total	1,683	1,899

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

20 Capital commitments

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Contracted but not provided for	99,239	80,471	-	-

Capital commitments are in respect of electricity and gas networks capital expenditure contracted but not provided for as at 31 December 2018.

ESP Utilities Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2018 (*continued*)

21 Related party disclosures

The Group's immediate holding company is Zoom Gas Pipelines Limited, a company registered in England and Wales. The Group's ultimate holding company is Zoom Holding Limited, a company registered in England and Wales. The Group 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 Group are consolidated is that headed by Zoom Holding Limited. A copy of these consolidated financial statements is available from Companies House.

There are no related party transactions in the year, other than those with wholly owned group companies which are exempt from disclosure under FRS102.