ESP Utilities Group Limited

Report and Financial Statements

Year Ended

31 December 2017

Registered number 2612105

ESP Utilities Group Limited

Report and financial statements
for the year ended 31 December 2017

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Directors
R Wallace
N J Clark
J Hector (resigned 1 June 2017)
T W Butler
G McQuater (resigned 1 June 2017)
S Williams
V Spiers
A Dellis (appointed 1 June 2017)
B Sottomayor (appointed 1 June 2017)
N Horler (appointed 8 January 2018)

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

Company number
2612105

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 2017

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.

On 1 June 2017 the sale of the business from EISER Infrastructure Limited to 3i MIA Holding Limited concluded. 3i MIA Holding Limited is 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. Under new ownership the Group has secured long term financing to underpin continued growth.

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 £53,564,000 (2016: £45,744,000). Profit for the period was £14,718,000 (2016: £11,494,000).

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 567,226 (including 127,666 electricity connections) with a growth of 12.8% in the year, compared to 13.4% 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 2018 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.

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 programs 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 45% (2016: 48%) 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 18% (2016: 20%) 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 35% (2016: 32%) 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

T W Butler
Director

Date: 6th June 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:

R Wallace	
N J Clark	
J Hector	(resigned 1 June 2017)
T W Butler	
V Spiers	
G McQuater	(resigned 1 June 2017)
S Williams	
A Dellis	(appointed 1 June 2017)
B Sottomayor	(appointed 1 June 2017)
N Horler	(appointed 8 January 2018)

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 auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Dividend

A dividend of £215,739,000 was paid during the year (2016: nil).

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 £2,182,000 (2016: £136,529,000) 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.

Auditor

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

From and on behalf of the Board

T W Butler
Director

Date: 6th June 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.

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

Opinion

We have audited the financial statements of ESP Utilities Group Limited ("the Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and 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 Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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 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.

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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Statement of 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

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 at the Financial Reporting Council's website at:
https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

BDO LLP

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

Date : 6/6/2018

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 2017

	Note	2017 £'000	2016 £'000
Turnover	3	**53,564**	45,744
Cost of sales		**(20,957)**	(16,676)
Gross profit		**32,607**	29,068
Administrative expenses		**(8,547)**	(6,397)
Group operating profit	4	**24,060**	22,671
Other interest receivable and similar income		**29**	8
Interest payable and similar charges	7	**(10,527)**	(11,079)
Profit on ordinary activities before taxation		**13,562**	11,600
Taxation on profit on ordinary activities	8	**1,156**	(106)
Profit for the financial year and total comprehensive income for the year		**14,718**	11,494

The notes on pages 15 to 27 form part of these financial statements.

ESP Utilities Group Limited

Consolidated balance sheet
at 31 December 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Tangible assets	10		**251,508**		229,258
Current assets					
Debtors	12	**12,175**		10,321	
Cash at bank and in hand		**7,793**		4,486	
		19,968		14,807	
Creditors: amounts falling due within one year	13	**26,260**		156,446	
Net current liabilities			**(6,292)**		(141,639)
Total assets less current liabilities			**245,216**		87,619
Creditors: amounts falling due after more than one year	14		**(251,101)**		(33,032)
Provisions for liabilities	16		**(8,597)**		(9,753)
Net assets/(liabilities)			**(14,482)**		44,834
Capital and reserves					
Called up share capital	18		**156,426**		14,721
Profit and loss account			**(170,908)**		30,113
Equity attributable to owners of the parent company			**(14,482)**		44,834

The financial statements were approved by the Board of Directors and authorised for issue on 6th June 2018 and were signed on its behalf by:

T W Butler
Director

The notes on pages 15 to 27 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital 2017 £'000	Profit and loss account 2017 £'000	Total equity 2017 £'000	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total Equity 2016 £'000
1 January	**14,721**	**30,113**	**44,834**	14,721	18,619	33,340
Comprehensive income for the year						
Profit for the year	-	**14,718**	**14,718**	-	11,494	11,494
Total comprehensive income for the year	-	**14,718**	**14,718**	-	11,494	11,494
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**	**(170,908)**	**(14,482)**	14,721	30,113	44,834

The notes on pages 15 to 27 form part of these financial statements.

ESP Utilities Group Limited

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the financial year		**14,718**	11,494
Adjustments for:			
Dividends paid		**(215,739)**	
Depreciation and amortisation of fixed assets	10	**7,634**	6,079
Net interest payable		**10,498**	11,078
Taxation expense/(credit)	8	**(1,156)**	106
Increase in trade and other debtors		**(1,855)**	(2,866)
Increase in trade creditors		**308**	4,871
Loss/(Gain) on disposal of tangible assets		**(77)**	(145)
Cash from operations		**(185,669)**	30,618
Interest paid		**(8,452)**	(13,042)
Taxation paid		**-**	-
Net cash generated from operating activities		**(194,121)**	17,575
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**29**	15
Purchases of tangible fixed assets	10	**(27,900)**	(23,196)
Interest received		**29**	8
Net cash used in investing activities		**(27,842)**	(23,173)
Cash flows from financing activities			
Intercompany borrowings		**7,196**	5,515
Loan notes issued		**224,000**	-
Debt issue costs incurred		**(5,926)**	-
Net cash from financing activities		**225,270**	5,515
Net decrease in cash and cash equivalents		**3,307**	(83)
Cash and cash equivalents at beginning of year		**4,486**	4,569
Cash and cash equivalents at end of year		**7,793**	4,486
Cash and cash equivalents comprise:			
Cash at bank and in hand		**7,793**	4,486
Bank overdrafts		**-**	-
		7,793	4,486

Non cash flow fixed asset additions of £2,061,504 (2016: £949,575) have been accrued in the year.

The notes on page 15 to 27 form part of these financial statements.

ESP Utilities Group Limited

Company balance sheet
at 31 December 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Investments	11		**511,705**		17,870
Current assets					
Debtors	12	**46,526**		20,082	
Cash at bank and in hand		**870**		63	
		47,396		20,145	
Creditors: amounts falling due within one year	13	**17,863**		23,242	
Net current liabilities			**29,533**		(3,097)
Total assets less current liabilities			**541,237**		14,773
Creditors: amounts falling due after more than one year	14		**-**		-
Net assets			**541,238**		14,773
Capital and reserves					
Called up share capital	18		**156,426**		14,721
Profit and loss account			**384,812**		52
			541,238		14,773

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 £573,877 (2016: £25,947 loss).

The financial statements were approved by the Board of Directors and authorised for issue on 6th June 2018

T W Butler
Director

The notes on pages 15 to 27 form part of these financial statements.

ESP Utilities Group Limited

Company statement of changes in equity
for the year ended 31 December 2017

	Share capital 2017 £'000	Profit and loss account 2017 £'000	Total equity 2017 £'000	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total Equity 2016 £'000
1 January	**14,721**	**52**	**14,773**	14,721	79	14,800
Comprehensive profit for the year						
Loss for the year	-	**(574)**	**(574)**	-	(27)	(27)
Profit on disposal of Operating subsidiaries to ESPUG Finance Limited	-	**601,073**	**601,073**	-	-	-
Total comprehensive loss for the year	-	**600,499**	**600,499**	-	(27)	(27)
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**	**384,812**	**541,238**	14,721	52	14,773

The notes on pages 15 to 27 form part of these financial statements.

1 Accounting policies

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

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 2017 the Group had net current liabilities of £6,292,000 (2016: £141,639,000). 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 not seek repayment of its loan of £2,182,000 until the company has sufficient funds available in order to continue trading and meet its liabilities as they fall due in the reasonable foreseeable future. As with any Group placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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.

The following principal accounting policies have been applied:

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 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.

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 has 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.

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 and 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.

3 Analysis of Turnover

	2017 £'000	2016 £'000
Analysis by class of business:		
Gas transportation	**24,028**	22,034
Gas metering	**10,693**	8,954
Electricity distribution	**18,843**	14,756
	53,564	45,744

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

4 Operating profit

This is arrived at after charging/(crediting):	2017 £'000	2016 £'000
Depreciation of tangible fixed assets	**7,634**	6,079
Release of deferred income on third party contributions	**(679)**	(659)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**3**	5
Fees payable to the Company's auditor for other services to the Group:		
- The audit of the Company's subsidiaries pursuant to legislation	**68**	84
- Other services	**-**	3
Operating lease – land and buildings	**205**	140

5 Employees

Group	2017 £'000	2016 £'000
Staff costs (including directors) consist of:		
Wages and salaries	**4,055**	2,615
Social security costs	**492**	298
Cost of defined contribution pension scheme	**335**	377
	4,882	3,290

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

	2017 Number	2016 Number
Gas	**55**	45
Electricity	**19**	19
	74	64

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.

6 Directors' remuneration

	2017	2016
	£'000	£'000
Group		
Directors' emoluments	**1,397**	584
Group contributions to money purchase pension schemes	**180**	234

There were six paid directors during the period (2016: seven). The remuneration of the highest paid director who served during the period was as follows:

	2017	2016
	£'000	£'000
Directors' emoluments	**316**	134
Group contributions to money purchase pension schemes	**35**	52

Company

The directors received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2017 (2016: nil). The Directors are considered to be the only key management personnel.

7 Interest payable and similar charges

	2017	2016
	£'000	£'000
Group loan note interest	**1,609**	1,793
Group loan interest	**7,006**	9,286
Loan note interest	**1,912**	-
	10,527	11,079

8 Taxation on profit on ordinary activities

	2017	**2017**	2016	2016
	£'000	**£'000**	£'000	£'000
UK corporation tax				
Current tax on profits of the year		-		610
Adjustment in respect of previous periods		-		69
Total current tax		-		679
Deferred tax				
Deferred tax current period	**(1,191)**		-	
Effect of changes in tax rate	-		(573)	
Deferred tax prior period	**35**		-	
		(1,156)		(573)
Total tax charge / (credit)		**(1,156)**		106

For further information on deferred tax balances see note 16.

8 Taxation on profit on ordinary activities (continued)

Tax reconciliation

	2017 £'000	2016 £'000
Profit on ordinary activity before tax	**13,562**	11,600
Current tax at 19.25% *(2016: 20%)*	**2,611**	2,320
Effects of:		
Expenses not tax deductible	**15**	(47)
Prior year adjustment – deferred tax	**35**	-
Group relief surrendered for nil consideration	**(3,974)**	(1,594)
Effect of difference in deferred tax rates	**157**	(573)
	(1,156)	106

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 £573,877 (2016: £25,947).

10 Tangible fixed assets

Group	Electricity & Gas Networks £'000	Meters £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2017	239,735	31,185	2,214	489	273,623
Additions	27,139	2,598	114	110	29,961
Disposals	(70)	(1,746)	-	(67)	(1,883)
At 31 December 2017	**266,804**	**32,037**	**2,328**	**532**	**301,701**
Depreciation					
At 1 January 2017	31,940	10,751	1,524	150	44,365
Provision for year	5,037	2,313	162	122	7,634
Disposals	(10)	(1,746)	-	(50)	(1,806)
At 31 December 2017	**36,967**	**11,318**	**1,686**	**222**	**50,193**
Net book value					
At 31 December 2017	**229,837**	**20,719**	**642**	**310**	**251,508**
At 31 December 2016	207,795	20,434	690	339	229,258

11 Fixed asset investments

Company

	Investment in subsidiaries £'000
Cost	
At 1 January 2017	17,870
Disposal	(17,870)
Addition	501,705
At 31 December 2017	501,705

11 Fixed asset investments *(continued)*

During the year a new company ESPUG Finance Limited (company number 10933801) was formed on 25th August 2017 which is 100% owned by ESP Utilities Group Limited. On 26th September 2017 a restructure of the Group occurred and all trading subsidiaries were transferred to ESPUG Finance Limited at fair value. As at 31 December 2017 the subsidiary company which operates and is registered in England & Wales, together with its activities is as follows:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
ESPUG Finance Limited	*England & Wales*	*100%*	*Finance & holding company*

The trading subsidiaries which were disposed of in the year were as follows:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held as at 31 December 2016	Nature of business
ESP Networks Limited	*England & Wales*	*100%*	*Gas transport*
ESP Pipelines Limited	*England & Wales*	*100%*	*Gas transport*
ESP Connections Limited	*England & Wales*	*100%*	*Gas transport*
ES Pipelines Limited	*England & Wales*	*100%*	*Gas transport*
ESP Electricity Limited	*England & Wales*	*100%*	*Independent distribution network operator*

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

12 Debtors

	Group 2017 £'000	Group 2016 £'000	**Company 2017 £'000**	Company 2016 £'000
Trade debtors	**5,502**	5,289	**-**	-
Amounts owed by Group undertakings	**1,196**	-	**45,776**	18,672
Other debtors	**207**	56	**175**	1,037
Prepayments and accrued income	**928**	1,854	**63**	3
Deposits	**4,342**	3,122	**-**	-
Group relief recoverable from fellow subsidiaries	**-**	-	**512**	370
	12,175	10,321	**46,526**	20,082

All debtors are due within one year.

13 Creditors: amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade creditors	**16,154**	11,622	**193**	3
Loans due to Group undertakings	**2,182**	123,475	**2,182**	944
Loan notes due to Group undertakings	**-**	13,054	**-**	-
Loan interest due	**1,627**	-	**-**	-
Other amounts owed to Group undertakings	**-**	-	**15,256**	22,281
Taxation and social security	**86**	133	**-**	-
Other creditors	**751**	802	**-**	-
Accruals and deferred income	**5,460**	7,360	**232**	14
	26,260	156,446	**17,863**	23,242

Loans due to Group undertakings are currently attracting interest at a fixed rate of 8% (2016: weighted average 7.3% above LIBOR). £141,704,532 of the loan was converted to share capital during the year (see note 18).

14 Creditors: amounts falling due after more than one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Deferred income	**32,744**	33,032	**-**	-
Loan notes	**218,357**	-	**-**	-
	251,101	33,032	**-**	-

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

15 Financial instruments

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

	Group 2017 £'000	Group 2016 £'000
Financial assets		
measured at amortised cost:		
Cash at bank	**7,793**	4,486
Trade debtors	**5,502**	5,289
Other debtors	**207**	56
Deposits	**4,342**	3,122
Financial liabilities		
measured at amortised cost:		
Trade creditors	**16,154**	11,622
Loans due to Group undertakings	**2,182**	123,475
Loan notes due to Group undertakings	**-**	13,054
Loan note interest	**1,627**	-
Other creditors	**751**	802
Accrual	**5,461**	6,697

16 Provisions for liabilities

Group	Deferred taxation 2017 £'000	Deferred taxation 2016 £'000
At 1 January	**9,753**	9,647
Charged/(credited) to profit or loss	**(1,156)**	106
At 31 December	**8,597**	9,753

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 2017 £'000	31 December 2016 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**9,753**	9,775
Other timing differences	**(1,156)**	(22)
	8,597	9,753

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 £335,029 (2016: £376,812). There were no amounts owing at the year end.

18 Share capital

	2017	2016
	£'000	£'000
Authorised		
160,000,000 ordinary shares of £1 each	**160,000**	160,000
Allotted, called up and fully paid		
156,425,517 ordinary shares of £1 each	**156,426**	14,721

A conversion of debt to ordinary shares took place on 26 September 2017 for £141,704,532. Shares of £1 each were issued pound for pound in respect of the debt converted (see note 13).

19 Commitments under operating leases

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

	2017	2016
	£'000	£'000
Not later than 1 year	**232**	216
Later than 1 year and not later than 5 years	**928**	928
Greater than 5 years	**739**	971
Total	**1,899**	2,115

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

20 Capital commitments

	Group	Group	**Company**	Company
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Contracted but not provided for	**80,471**	68,783	**-**	-

Capital commitments are in respect of electricity and gas networks capital expenditure contracted but not provided for as at 31 December 2017.

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.