

ESPUG Finance Limited

Report and Financial Statements

Year Ended

31 December 2018

Registered number 10933801

ESPUG Finance Limited

Report and financial statements for the year ended 31 December 2018

Contents

Page:

1	Strategic report
3	Directors' report
4	Statement of Directors' responsibilities
5	Independent Auditor's report
8	Statement of comprehensive income
9	Balance Sheet
10	Statement of changes in equity
11	Notes

Directors

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

Secretary and registered office

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

Company number

10933801

Auditor

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

ESPUG Finance Limited

Strategic report for the year ended 31 December 2018

Principal activities

The principal activity of the Company is that of 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 Directors believe it is appropriate to present the accounts on a going concern basis as set out in note 1.

Review of the business

A statement of comprehensive income is set out on page 8 and shows turnover for the period of £nil (2017: £nil) and profit for the period of £2,932,000 (2017: £819,000), due to net interest received on intercompany balances.

The Directors considered loan interest to be the main key performance indicator as this is a holding company with no other transactions. Interest paid for the period was £8,714,000 (2017: £1,912,000). Interest received for the period was £11,699,000 (2017: £2,736,000).

No dividends were received or paid during the period.

Principal risks and uncertainties

The Company is a holding company therefore what is relevant in terms of risks and uncertainties is in respect of the trading of the subsidiaries.

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 the meters connected to its gas pipelines. Meter income represents approximately 20% (2017: 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 connections 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.

ESPUG Finance Limited

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

For and on behalf of the Board



P Miles
Director

Date: 22.5.19.

ESPUG Finance Limited

Directors' report for the year ended 31 December 2018

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

Dividends

No dividends were received during the year. No dividend was declared or paid during the year.

Directors

The directors of the Company throughout the year were:

T W Butler
N J Clark
A Dellis
P Miles (appointed 21 January 2019)
K O'Connor (appointed 10 December 2018)
V Spiers
S Schwengber (appointed 13 July 2018)
B Sottomayor
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 Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Financial instruments

Liquidity risk and cash flow risk

On 6 October 2017 the company entered into new loan note agreements to refinance the Group's' external debt borrowings. The facilities consist of lenders providing up to £339m of private loan placements, working capital, capital expenditure and liquidity facilities. These loans have an investment grade credit rating of Baa2 from Moody's Investor Services.

Credit risk

Credit risk arises principally from the Company's trade and other receivables. Management review all debtors for impairment and are comfortable that all un-provided debts are fully recoverable.

Likely future developments in the business of the Company

The Directors consider that having secured long term funding for the Group, as shown in note 11, there will be no material changes to the business of the company going forward.

Auditor

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

For and on behalf of the Board



P Miles
Director

Date: 22.5.19

ESPUG Finance Limited

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

ESPUG Finance Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE LIMITED

Opinion

We have audited the financial statements of ESPUG Finance Limited ("the Company") for the year ended 31 December 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity 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 Company's affairs as at 31 December 2018 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.

ESPUG Finance Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE 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 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, 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 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

ESPUG Finance Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF ESPUG FINANCE 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 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.

BDO LLP

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

Date : 23.05.2019

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

ESPUG Finance Limited

Statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	Period ended 31 Dec 2017 £'000
Turnover		-	-
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		-	-
Administrative expenses		(53)	(5)
		<hr/>	<hr/>
Operating profit	3	(53)	(5)
Interest payable and similar charges	4	(8,714)	(1,912)
Other interest receivable and similar income	5	11,699	2,736
		<hr/>	<hr/>
Profit on ordinary activities before taxation		2,932	819
Taxation on profit on ordinary activities	7	-	-
		<hr/>	<hr/>
Profit for the financial year and total comprehensive income for the year / period		2,932	819
		<hr/>	<hr/>

The notes on pages 11 to 15 form part of these financial statements.

ESPUG Finance Limited

Balance sheet at 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Investments	8		620,042		620,008
			<u>620,042</u>		<u>620,008</u>
Current assets					
Debtors	9	147,522		144,432	
Cash at bank and in hand		1,022		1,468	
		<u>148,544</u>		<u>145,900</u>	
Creditors: amounts falling due within one year	10	<u>(33,681)</u>		<u>(33,400)</u>	
Net current liabilities			114,863		112,500
Total assets less current liabilities			<u>734,905</u>		<u>732,508</u>
Creditors: amounts falling due after more than one year	11		<u>(219,450)</u>		<u>(219,985)</u>
Net assets			<u>515,455</u>		<u>512,523</u>
Capital and reserves					
Called up share capital	12		141,705		141,705
Share premium account			369,999		369,999
Profit and loss account			3,751		819
			<u>515,455</u>		<u>512,523</u>

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

22.5.19.

P Miles
Director

The notes on pages 11 to 15 form part of these financial statements.

ESPUG Finance Limited

Statement of changes in equity for the year ended 31 December 2018

	Share capital 2018 £'000	Share Premium 2018 £'000	Profit and loss account 2018 £'000	Total equity 2018 £'000	Share capital 2017 £'000	Share Premium 2017 £'000	Profit and loss account 2017 £'000	Total equity 2017 £'000
1 January	141,705	369,999	819	512,523	-	-	-	-
Comprehensive income for the year / period								
Profit for the year	-	-	2,932	2,932	-	-	819	819
Total comprehensive income for the year / period	-	-	2,932	2,932	-	-	819	819
Contributions by and distributions to owners	-	-	-	-	-	-	-	-
Shares issued	-	-	-	-	141,705	369,999	-	511,704
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-
31 December	141,705	369,999	3,751	515,455	141,705	369,999	819	512,523

The notes on pages 11 to 15 form part of these financial statements.

ESPUG Finance Limited

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

1 Accounting policies

ESPUG Finance Limited is a private company, limited by shares, incorporated in England & Wales under the Companies Act.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Basis of preparation

Disclosure exemptions

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

- No cash flow statement has been presented for the Company as this information is included in the consolidated accounts of ESP Utilities Group Limited, which can be obtained from Companies House; and
- Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole.

Going concern

The financial statements have been prepared on a going concern basis.

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, 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 5th October 2017 the Group refinanced its external debt borrowings. The Groups facilities consist of a banking syndicate of five banks providing £224m of private loan placements, £5m working capital, £100m capital expenditure and £10m liquidity facilities. The loan notes have maturity dates of ten, fifteen and twenty years at a fixed rate of interest. 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:

Investments

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

Impairment of cost of investment

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit ("CGU") to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

ESPUG Finance Limited

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

1 Accounting policies (*continued*)

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.

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 operates and generates taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

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

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

Financial 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 Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue cost.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- Determine whether there are indicators of impairment of the Company's 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.

ESPUG Finance Limited

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

3	Operating profit		Period ended 31 Dec
		2018	2017
		£'000	£'000
	This is arrived at after charging		
	Auditor's remuneration - audit	2	5
		<u> </u>	<u> </u>
4	Interest payable and similar charges		Period ended 31 Dec
		2018	2017
		£'000	£'000
	Interest on loan notes	8,714	1,912
		<u> </u>	<u> </u>
5	Other interest receivable and similar income		Period ended 31 Dec
		2018	2017
		£'000	£'000
	Interest receivable from Group companies	11,664	2,728
	Preference share interest received	35	8
		<u> </u>	<u> </u>
		11,699	2,736
		<u> </u>	<u> </u>
6	Remuneration of Directors		
	The Directors received no remuneration or fees in respect of their services to the Company for the year ended 31 December 2018 (2017: £nil).		
7	Taxation on profit on ordinary activities		Period ended 31 Dec
		2018	2017
		£'000	£'000
	<i>Current tax reconciliation</i>		
	Profit on ordinary activities before tax	2,932	819
		<u> </u>	<u> </u>
	Current tax at 19% (2017: 19.25%)	558	158
	<i>Effects of:</i>		
	Exempt income : Group interest received	(558)	(158)
		<u> </u>	<u> </u>
	Total current tax	-	-
		<u> </u>	<u> </u>

No liability to Corporation Tax was incurred in the year.

ESPUG Finance Limited

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

8 Fixed asset investments

	2018 £'000	2017 £'000
Cost as at 1 January 2018 and 31 December 2018	620,042	620,008

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

<i>Subsidiary</i>	Country of incorporation	Principal activity	Class and percentage of shares held
ESP Electricity Limited	England & Wales	Independent distribution network operator	Ordinary shares 100%
ES Pipelines Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Pipelines Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Networks Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Connections Limited	England & Wales	Independent gas transport	Ordinary shares 100%

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

9 Debtors

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	147,522	144,432

All debtors are due within one year.

10 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed to Group undertakings	31,951	33,395
PP notes interest	1,723	-
Accruals and deferred income	7	5
	33,681	33,400

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

ESPUG Finance Limited

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

11 Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
PP notes issued	219,450	219,985

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

£54m 2.69% Senior Secured Tranche A note due 6th October 2027

£85m 3.05% Senior Secured Tranche B note due 6th October 2032

£85m 3.35% Senior Secured Tranche C note due 6th October 2037

12 Share capital

	2018 £'000	Period ended 31 Dec 2017 £'000
<i>Allotted, called up and fully paid</i> 141,705,534 Ordinary shares of £1 each	141,705	141,705

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

The Company's immediate holding company is ESP Utilities Group Limited, a Company registered in England. The Company's ultimate holding company is Zoom Holding Limited, a Company registered in England and Wales.

The Company is ultimately controlled by 3i MIA LP, an English limited partnership, which is managed by 3i Investments plc. 3i Investments plc is wholly owned by 3i Group plc. The general partner of 3i MIA LP is 3i Managed Infrastructure GP (2017) LLP.

The largest group in which the results of the Company are consolidated is that headed by Zoom Holding Limited. The smallest group in which the results of the Company are consolidated is that headed by ESP Utilities Group Limited. Copies of these consolidated financial statements are available from Companies House.