ESPUG Finance Limited

Report and Financial Statements

Year Ended

31 December 2020

Registered number 10933801

ESPUG Finance Limited

Report and financial statements
for the year ended 31 December 2020

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

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

Company number
10933801

Auditor

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

Principal activities and future developments

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.

There have been no changes in the Company's activities in the period under review.

Review of the business

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

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

A statement of comprehensive income is set out on page 10 and shows turnover for the period of £nil (2019: £nil) and profit for the period of £21,077,000 (2019: £3,175,000), 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 £9,547,000 (2019: £8,818,000). Interest received for the period was £13,842,000 (2019: £12,046,000).

A dividend of £22,500,000 was paid during the year (2019: £3,000,000). Dividends of £17,000,000 were received during the year (2019: £nil).

As the Group is a transporter of gas and distributor of electricity to predominantly domestic properties there was no impact on the income or costs of the business during 2020 due to Covid-19 and as a consequence there has been no impact on the Company.

In January 2021 the Group launched ESP Water, which will support our existing customers by adopting water and wastewater networks as part of a multi-utility proposition. This will serve to protect and grow our existing dual utility gas and electric propositions and provide the Group with additional regulated, sustainable revenue.

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 Utility Infrastructure Providers (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.

Principal risks and uncertainties (continued)

The ownership and operation of gas pipelines represents approximately 41% (2019: 41%) 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.

Principal risks and uncertainties (continued)

The Group also operates and maintains the meters connected to its gas pipelines. Meter income represents approximately 13% (2019: 16%) of the Group's revenue. The meter market in the UK has been open to competition since 2004 and over the next 4 years it is forecast that dumb meter revenue will materially decline as a consequence of the Government mandated smart meter roll out. However the 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 46% (2019: 43%) 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.

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

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

Directors duties

The Directors of the Group, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company, maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the company.'

As part of their induction, a Director is briefed on their duties and they can access professional advice on these. It is important to recognise that the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to employees of the Group.

Risk Management

Consideration of risk is an integral part of how the Company operates on a daily basis and is part of any transactional appraisal. The Board also formally revisits the level of oversight and the monitoring of risks is reviewed by the Board on a regular basis.

Our People

As a relatively small Group with less than 100 employees operating in one location, we recognise that our employees are fundamental to the success of the business and every single person's contribution counts. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

Business Relationships

Developing strong relationships with stakeholders is fundamental to the Group's strategy. ESP Utilities Group Limited (ESPUG) Directors have regular contact with our Customers to ensure we continue to understand their needs and can act as a partner to deliver growth. Engagement with the Regulator and Government Departments is a key priority which ESPUG undertakes bilaterally and as part of the Independent Networks Trade Association (INA), which ESPUG also Chairs. Liaison with our key suppliers is through attendance at industry forums and working groups where modifications to sector codes are developed.

Community and Environment

The Directors are aware of the impact the Group's operations on the community and environment. The Group is an active participant in the GRESB ESG benchmarking process and are committed to improving their compliance score.

Energy and carbon disclosures

All entities within the Group, including Zoom Holding Limited are exempt from reporting on energy and carbon as no individual entity has consumption which exceeds the 40,000kWh reporting threshold.

Shareholders

As a Board of Directors, our intention is to behave responsibly towards our shareholders, working closely with them to deliver growth and add value. Key decisions, such as the acquisition of domestic customer gas connection assets from Fulcrum Utility Services Limited are made in conjunction with shareholders, whose interests are represented by their three Board appointees.

Key decisions made in the year

Decision	Effect
Decision to form ESP Water and enter the water adoption market	
Shareholders	Add to the value of the business through secure long-term increase in revenues.
Employees	Increased profitability provides secure employment prospects.
Suppliers	Enables ESP infrastructure partners to provide a more comprehensive offering to developers, improving their competitiveness in the market.

Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future and have prepared the financial statements on a going concern basis as set out in note 1.

For and on behalf of the Board

P Miles
Director

7 May 2021

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

Dividends

Dividends of £17,000,000 were received during the year (2019: £nil). Dividends of £22,500,000 were declared and paid during the year (2019: £3,000,000).

Directors

The Directors of the Company throughout the year were:

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

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 £369m 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.

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

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.

Post Balance sheet event

ESPUG Finance Limited has raised a further £30m to fund ongoing capital expenditure through the issue of 2.74% Private Placement Loan Notes which mature on 13th May 2041.

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

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

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

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

For and on behalf of the Board

P Miles
Director

7 May 2021

Directors' responsibilities statement
for the year ended 31 December 2020

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 ESPUG FINANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of ESPUG Finance Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 14.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the 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 the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

7 May 2021

ESPUG Finance Limited

Statement of comprehensive income
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(218)	(53)
Operating loss	3	(218)	(53)
Interest payable and similar charges	4	(9,547)	(8,818)
Other interest receivable and similar income	5	13,842	12,046
Dividends from share in group undertakings		17,000	-
Profit on ordinary activities before taxation		21,077	3,175
Taxation on profit on ordinary activities	7	-	-
Profit for the financial year and total comprehensive income for the year / period		21,077	3,175

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

The notes on pages 14 to 20 form part of these financial statements.

ESPUG Finance Limited

Balance sheet
at 31 December 2020

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Fixed assets					
Investments	8		**620,106**		620,080
			620,106		620,080
Current assets					
Debtors	9	**199,862**		157,205	
Cash at bank and in hand		**4,096**		6,804	
		203,958		164,009	
Creditors: amounts falling due within one year	10	**(27,993)**		(27,803)	
Net current assets			**175,965**		136,206
Total assets less current liabilities			**796,071**		756,286
Creditors: amounts falling due after more than one year	11		**(281,864)**		(240,656)
Net assets			**514,207**		515,630
Capital and reserves					
Called up share capital	12		**141,705**		141,705
Share premium account			**369,999**		369,999
Profit and loss account			**2,503**		3,926
			514,207		515,630

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

P Miles
Director

The notes on pages 14 to 20 form part of these financial statements.

ESPUG Finance Limited

Statement of changes in equity
for the year ended 31 December 2020

	Share capital 2020 £'000	Share Premium 2020 £'000	Profit and loss account 2020 £'000	Total equity 2020 £'000	Share capital 2019 £'000	Share Premium 2019 £'000	Profit and loss account 2019 £'000	Total equity 2019 £'000
1 January	**141,705**	**369,999**	**3,926**	**515,630**	**141,705**	**369,999**	**3,751**	**515,455**
Comprehensive income for the year / period								
Profit for the year	**-**	**-**	**21,077**	**21,077**	**-**	**-**	**3,175**	**3,175**
Total comprehensive income for the year / period	**-**	**-**	**21,077**	**21,077**	**-**	**-**	**3,175**	**3,175**
Contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid	**-**	**-**	**(22,500)**	**(22,500)**	**-**	**-**	**(3,000)**	**(3,000)**
Total contributions by and distributions to owners	**-**	**-**	**(22,500)**	**(22,500)**	**-**	**-**	**(3,000)**	**(3,000)**
31 December	**141,705**	**369,999**	**2,503**	**514,207**	**141,705**	**369,999**	**3,926**	**515,630**

The notes on pages 14 to 20 form part of these financial statements.

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.

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

Basis of preparation

Disclosure exemptions

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

- No cash flow statement has been presented for the Company as this information is included in the consolidated accounts of ESP Utilities Group Limited (company number 02612105), which can be obtained from Companies House; and
- Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole.
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included within E.S. Pipelines Limited (company number 03822878) 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 fifteen months from the date of approval of these financial statements. In addition, stress cash flows have been prepared at Zoom Holding Limited level to assess an increased impact of Covid-19. Based on the lack of any detriment to the business from Covid-19 during 2020 the Directors do not believe there will be any material financial or operational impact from Covid-19 in the future. As a transporter of gas to predominantly domestic properties the Directors' assessment is that Covid-19 will continue not have a significant impact on either the income or costs of the Company.
The Directors have considered and reviewed projections and cash flow forecasts that cover the period to twelve months from the date of approval of these financial statements.

Based on this, the Group and 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 Group's facilities consist of a banking syndicate of five banks providing £254m 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:

1 Accounting policies *(continued)*

Consolidated financial statements

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

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.

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.

1 Accounting policies *(continued)*

Financial Assets

Financial assets, other than investments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity
Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Reserves

The Company's reserves are as follows:

- Called up share capital 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. This is a judgemental process which requires estimating the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit, the long term growth rate and the discount rate.

- The most significant area of estimation uncertainty is the Group's use of the discounted cashflow methodology when assessing the parent company's investments where estimates regarding revenue growth and a suitable discount rate are made.

3 Operating loss

This is arrived at after charging	**2020 £'000**	2019 £'000
Auditor's remuneration - audit	**2**	2

4 Interest payable and similar charges

	2020 £'000	2019 £'000
Interest on loan notes	**9,547**	8,818

5 Other interest receivable and similar income

	2020	2019
	£'000	£'000
Interest receivable from Group companies	**13,814**	12,008
Preference share interest received	**26**	38
Bank interest received	**2**	-
	13,842	12,046

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 2020 (2019: £nil).

7 Taxation on profit on ordinary activities

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

	2020	2019
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	**21,077**	3,175
Current tax at 19% (2019: 19%)	**4,004**	603
Effects of:		
Exempt group income	**(3,234)**	(7)
Expenses not deductible for tax	**3**	-
Group relief claimed for nil consideration	**(773)**	(596)
Total current tax	**-**	-

No liability to Corporation Tax was incurred in the year (2019: nil)

The March 2021 Budget included a statement that the UK Corporation Tax will increase to 25% from 1 April 2023. This change had not been enacted at the date these accounts were finalised.

8 Fixed asset investments

	2020 £'000	2019 £'000
Cost as at 1 January and 31 December	**620,106**	620,080

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

Subsidiary	**Country of incorporation**	**Principal activity**	**Class and percentage of shares held**
ESP Electricity Limited *	England & Wales	Independent distribution network operator	Ordinary shares 100%
E.S. 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%
Gas Newco 1 Limited	England & Wales	Independent gas transport	Ordinary shares 100%

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

Directly owned *

9 Debtors

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	**199,855**	157,205
Other debtors	**7**	-
	199,862	157,205

All debtors are due within one year.

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

10 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	**26,000**	26,000
PP notes interest	**1,986**	1,796
Accruals and deferred income	**7**	7
	27,993	27,803

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

11 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
PP notes issued	**251,864**	220,656
Capex loan	**30,000**	20,000
	281,864	240,656

The 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
£30m at 2.116% Senior Secured note due 13th February 2035
£85m 3.35% Senior Secured Tranche C note due 6th October 2037

The Capex loan is repayable in full in October 2022 and incurs interest at a rate of LIBOR plus 1.5%. The bank loans are secured by an All Assets charge over the assets of the Group

12 Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
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.

14 Post Balance sheet event

ESPUG Finance Limited has raised a further £30m to fund ongoing capital expenditure through the issue of 2.74% Private Placement Loan Notes which mature on 13th May 2041.