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E.S. Pipelines Limited

**Directors' report and financial
statements**

Registered number 3822878

Year ended 31 December 2011

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Directors

R Wallace
N J Clark
M Carr
J Hector
V Spiers

Secretary and registered office

Beach Secretaries Limited, Hazeldean, Station Road, Leatherhead, Surrey, KT22 7AA

Company number

3822878

Auditors

BDO LLP
Emerald House
East Street
Epsom
KT17 1HS

Directors' report

The directors present their annual report and the audited financial statements for the year ended to 31 December 2011

Principal activities

The company is engaged in the business of independent gas transportation

Results

The profit and loss account is set out on page 5 and shows a profit for the year

Directors and directors' interests

The directors who held office during the period were as follows

R W Wallace
N J Clark
M Carr
J Hector
V Spiers

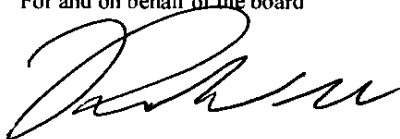
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting

In preparing this directors' report advantage has been taken of the small companies exemption

For and on behalf of the board



R Wallace
Director
Date 17th April 2012

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing 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 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.

Independent Auditor's Report to the Shareholders of E.S. Pipelines Limited

We have audited the financial statements of E S Pipelines Limited for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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.

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31st December 2011 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

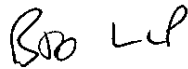
Independent Auditor's Report to the Shareholders of E.S. Pipelines Limited

(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies' regime



*Andrew Stuckland (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Epsom, Surrey*

United Kingdom

Date 19th April 2012

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

Profit and loss account
for the year ended 31 December 2011

	<i>Note</i>	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Turnover	1	5,013,967	4,009,792
Cost of sales		<u>(1,372,827)</u>	<u>(1,107,226)</u>
Gross profit		3,641,140	2,902,566
Administrative expenses		<u>(2,402,628)</u>	<u>(2,409,624)</u>
Other operating income - management fee		1,238,512	492,942
		<u>1,688,402</u>	<u>1,842,859</u>
Operating profit		2,926,914	2,335,801
Interest payable and similar charges	3	(651,335)	(407,201)
Other interest receivable and similar income	4	873,984	762,641
Profit on ordinary activities before taxation	2	3,149,563	2,691,241
Tax on profit on ordinary activities	7	<u>(867,007)</u>	<u>(950,306)</u>
Profit on ordinary activities after taxation	16	<u><u>2,282,556</u></u>	<u><u>1,740,935</u></u>

The operating profit of the company arose solely from continuing activities. There are no recognised gains or losses other than the profit for the financial period.

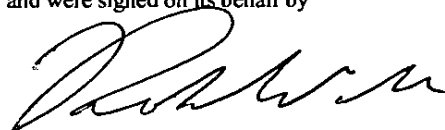
The notes on page 7 to 15 form part of these financial statements.

Balance sheet
at 31 December 2011

	<i>Note</i>	31 December 2011 £	31 December 2010 £
Fixed assets			
Tangible assets	8	49,856,076	42,305,964
Investments	9	22,847,458	22,847,458
		<hr/>	<hr/>
		72,703,534	65,153,422
Current assets			
Debtors	10	9,852,347	8,324,681
Cash at bank and in hand		974,352	382,373
		<hr/>	<hr/>
		10,826,699	8,707,054
Creditors' amounts falling due within one year	11	(21,958,244)	(39,914,116)
		<hr/>	<hr/>
Net current liabilities		(11,131,545)	(31,207,062)
		<hr/>	<hr/>
Total assets less current liabilities		61,571,989	33,946,360
		<hr/>	<hr/>
Creditors' amounts falling due after one year	12	(41,368,686)	(15,799,007)
Provision for liabilities and charges	13	(344,990)	(571,596)
		<hr/>	<hr/>
Net assets		19,858,313	17,575,757
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	14	15,070,885	15,070,885
Profit and loss account	16	4,787,428	2,504,872
		<hr/>	<hr/>
Shareholders' funds	15	19,858,313	17,575,757
		<hr/>	<hr/>

These statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime

These financial statements were approved by the board of directors and authorised for issue on 17th April 2012 and were signed on its behalf by



R Wallace
Director

The notes on page 7 to 15 form part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

The company is exempt under section 401 of the Companies Act 2006 from the obligation to prepare group accounts and to deliver them to the Registrar of Companies. The financial statements present information about the company as an individual undertaking and not about its group

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As 100% of the company's voting rights are controlled within the group headed by ESP Gas Group Limited the company has taken advantage of the exemptions contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of ESP Gas Group Limited, within which this company is included, are publicly available as described in note 19

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £11,131,545 (2010 net current liabilities of £31,207,062). The company is dependent for its working capital on funds provided to it by a fellow group undertaking. The relevant group undertaking has confirmed it will not seek repayment of the loan until there are sufficient funds available for the company to be able to make such a repayment

As with any company 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

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of independent gas transport to customers during the period

Fixed assets and depreciation

Depreciation is calculated so as to write off the cost of other 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
Networks	- 60 years
Motor vehicles	- 4 years
Meters	- 20 years
Prepayment meters	- 10 years

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment

Notes (continued)

Third party contributions

Third party contributions received relate specifically to capital expenditure on the pipelines and are treated as deferred income, which is then credited to the profit and loss account over the related assets' useful life

Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19

Pension schemes

The company now operates a defined contributions pension scheme. Contributions to this scheme are charged to the profit and loss account in the period in which they become payable. The assets of the scheme are held separately in an independently administered fund

2 Profit on ordinary activities before taxation

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
<i>Profit on ordinary activities before taxation is stated after charging /crediting</i>		
Auditors remuneration – audit	22,000	21,998
Depreciation	1,205,734	988,573
Third party contributions release	(234,394)	(211,331)
Profit on disposal of fixed assets	(10,648)	(1,635)
Rent of premises	95,000	95,000
	651,335	407,201

3 Interest payable and similar charges

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Interest on loans to Group companies	619,085	374,951
Preference share interest payable	32,250	32,250
	651,335	407,201

4 Other interest receivable and similar income

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Loan note interest receivable	873,984	762,641
	873,984	762,641

Notes (continued)

5 Remuneration of directors

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Directors' emoluments	369,428	347,613
Company contributions to money purchase pension schemes	131,698	123,305
	501,126	470,918
	501,126	470,918

There were four paid directors during the year

The remuneration of the highest paid director who served during the period was as follows

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Directors' emoluments	104,893	101,381
Company contributions to money purchase pension schemes	42,378	36,181
	147,271	137,562
	147,271	137,562

6 Staff numbers and costs

The average number of persons employed by the company (including four of the directors) during the year was as follows

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Administration	36	34
	36	34
	36	34

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Wages and salaries	1,325,677	1,245,969
Social security costs	146,476	130,996
Pensions costs	246,124	227,213
	1,718,277	1,604,178
	1,718,277	1,604,178

Notes (continued)

7 Taxation

Analysis of charge in period

	Year ended 31 December 2011		Year ended 31 December 2010	
	£	£	£	£
<i>UK corporation tax</i>				
Current tax on income in the period	1,093,613		987,778	
	<hr/>		<hr/>	
Total current tax		1,093,613		987,778
		<hr/>		<hr/>
Deferred tax (see note 13)				
- Current		(244,670)		(218,430)
- Effect of reduction in tax rate to 25%		(32,216)		(21,170)
- Prior periods		50,280		202,128
		<hr/>		<hr/>
Total deferred tax		(226,606)		(37,472)
		<hr/>		<hr/>
Tax on profit on ordinary activities		867,007		950,306
		<hr/> <hr/>		<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2010 higher) than the standard rate of corporation tax in the UK of 26.5%. The differences are explained below

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	3,149,563	2,691,241
	<hr/>	<hr/>
Current tax at 26.5% (2010 28%)	834,634	753,547
<i>Effects of</i>		
Expenses not deductible for tax purposes	14,309	15,801
Depreciation in excess of capital allowances for the period	244,670	218,430
	<hr/>	<hr/>
Total current tax (see above)	1,093,613	987,778
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Fixed assets

	Meters	Networks	Motor Vehicles	Fixtures, fittings, tools & equipment	Total
	£	£	£	£	£
<i>Cost</i>					
At 1 January 2011	4,637,165	39,648,709	160,663	1,334,701	45,781,238
Additions	1,416,093	7,255,587	59,475	39,193	8,770,348
Disposals	(97,681)	-	(59,011)	-	(156,692)
At 31 December 2011	5,955,577	46,904,296	161,127	1,373,894	54,394,894
<i>Depreciation</i>					
At 1 January 2011	558,170	2,231,854	72,255	612,995	3,475,274
Charge for period	347,968	688,366	34,333	135,067	1,205,734
Disposals	(97,681)	-	(44,509)	-	(142,190)
At 31 December 2011	808,457	2,920,220	62,079	748,062	4,538,818
<i>Net book value</i>					
At 31 December 2011	5,147,120	43,984,076	99,048	625,832	49,856,076
At 31 December 2010	4,078,995	37,416,855	88,408	721,706	42,305,964

Notes (continued)

9 Fixed asset investments

	£
Cost at 1 January 2011 and 31 December 2011	<u>22,847,458</u>

Details of the company's fixed asset investment in subsidiaries is as follows

	Country of incorporation	Principal activity	Class and percentage of shares held
<i>Subsidiary</i>			
ESP Pipelines Limited	England & Wales	Independent gas transport	Ordinary shares 100%
ESP Networks Limited	England & Wales	Independent gas transport	Ordinary shares 100%
Kellen Venture Limited	England & Wales	Holding company	Ordinary shares 100%
ESP Connections Limited *	England & Wales	Independent gas transport	Ordinary shares 100%

* indirectly held

10 Debtors

	31 December 2011 £	31 December 2010 £
Trade debtors	727,460	404,916
Amounts owed by group undertakings	8,911,100	7,582,718
Other debtors	16,570	157,835
Prepayments and accrued income	197,217	179,212
	<u>9,852,347</u>	<u>8,324,681</u>

11 Creditors' amounts falling due within one year

	31 December 2011 £	31 December 2010 £
Trade creditors	1,051,176	478,013
Other creditors	328,682	234,584
Loans due to group undertakings	-	22,820,530
Amounts owed to group undertakings	16,605,128	13,406,546
Accruals and deferred income	1,597,176	1,694,672
Group relief payable to fellow subsidiaries	2,329,710	1,236,098
Tax and Social Security	46,372	43,673
	<u>21,958,244</u>	<u>39,914,116</u>

Notes (continued)

12 Creditors: amounts falling due after more than one year

	31 December 2011 £	31 December 2010 £
Loans due to group undertakings	25,224,345	861,559
Deferred income	13,117,845	11,943,202
Preference shares	3,026,496	2,994,246
	41,368,686	15,799,007
	41,368,686	15,799,007

The carrying value of the preference shares includes accrued interest in respect of cumulative dividends

	31 December 2011 £	31 December 2010 £
Analysis of loans due to group undertakings:		
Loan due to group undertakings can be analysed as falling due		
In one year or less, or on demand	-	22,820,530
Between one and two years	867,337	627,013
Between two and five years	24,357,008	234,545
Over five years	-	-
	25,224,345	23,682,088
	25,224,345	23,682,088

Interest is payable on the above amounts at the following rates

	£	£
Interest charged at 1.2% per annum above Barclays Bank Base Rate	867,337	3,614,821
Interest charged at 5.5% above Libor (2010 3.232810%) per annum	15,015,254	10,798,831
Interest charged at 3.5% above Libor from 01 November 2011 (2010 no charge)	9,341,754	9,268,436
	25,224,345	23,682,088
	25,224,345	23,682,088

Notes (continued)

13 Provisions for liabilities and charges

	Deferred taxation £
Liability at the beginning of the period	571,596
Credit to the profit and loss for the period	(226,606)
	344,990
Liability at the end of the period	344,990

The elements of deferred taxation are as follows

	31 December 2011 £	31 December 2010 £
Difference between accumulated depreciation and amortisation of capital allowance	344,990	571,596
	344,990	571,596
	344,990	571,596

14 Called up share capital

	31 December 2011 £	31 December 2010 £
<i>Allotted, called up and fully paid</i>		
15,070,885 Ordinary shares of £1 each	15,070,885	15,070,885
2,150,000 Cumulative redeemable preference shares of £1 each	2,150,000	2,150,000
	17,220,885	17,220,885
	17,220,885	17,220,885
<i>Authorised</i>		
20,000,000 Ordinary shares of £1 each	20,000,000	20,000,000
10,000,000 Cumulative redeemable preference shares of £1 each	10,000,000	10,000,000
	30,000,000	30,000,000
	30,000,000	30,000,000
Shares classified in liabilities	2,150,000	2,150,000
Shares classified in Shareholders' funds	15,070,885	15,070,885
	17,220,885	17,220,885
	17,220,885	17,220,885

The preference shares are cumulative at a coupon of 1% above bank base rate. The company may at its option redeem at par the redeemable preference shares in whole or in part at any time giving three months' notice in writing.

Notes (continued)

15 Reconciliation of movements in shareholders' funds

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Profit for the financial period	2,282,556	1,740,935
Net addition to shareholders' funds	2,282,556	1,740,935
Opening shareholders' funds	17,575,757	15,834,822
Closing shareholders' funds	19,858,313	17,575,757

16 Profit and loss account

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Profit for the financial period	2,282,556	1,740,935
Profit and loss account at the beginning of the period	2,504,872	763,937
Profit and loss account at the end of period	4,787,428	2,504,872

17 Capital commitments

	31 December 2011 £	31 December 2010 £
Capital commitments authorised by the directors are Contracted	26,743,218	19,041,619

18 Commitments under operating leases

At the year end E S Pipelines had annual commitments under non-cancellable operating leases, in respect of land and buildings, expiring after five years, of £95,000 (2010 £95,000)

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

The company's immediate holding company is ESP Gas 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 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 Gas Group Limited. Copies of these consolidated financial statements are available from Companies House.