Zoom Holding Limited

Report and Financial Statements

Year Ended

31 December 2016

Registered number 5777758

Zoom Holding Limited

Report and financial statements
for the year ended 31 December 2016

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Directors
J Hector
H Meissner

Secretary and registered office
Comat Consulting Services Limited,
4th Floor, Kent House, 14 – 17 Market Place, London W1W 8AJ

Company number
5777758

Auditors

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

Zoom Holding Limited

Strategic report
for the year ended 31 December 2016

Principal activities and future developments

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

The directors believe it is appropriate to present the accounts on a going concern basis as set out in note 1.

Financial review

The consolidated statement of comprehensive income is set out on page 7 and shows turnover for the period of £45,744,000 (2015: £38,200,000). Operating profit for the period was £16,836,000 (2015: £12,922,000), but after net interest costs of £21,145,000 (2015: £21,197,000) and changes in fair value of swap £35,330,000 loss (2015: £6,451,000 loss), a loss before tax for the year of £39,639,000 (2015: £14,726,000) has resulted.

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

The number of installed connections owned by its operating subsidiaries as at the end of the year was 502,707 (including 94,115 electricity connections) with a growth of 13.4% in the year, compared to 13.8% in the previous year. This is directly related to the build out of the Group's order book from previous years.

Turnover has increased during the year due to the increase in connections mentioned above. Based on the current economic forecasts and given the competitive market conditions, expectations for 2017 are that turnover will continue to grow as the order book for connections is installed.

The Group continues to expand its portfolio of assets through three main areas of activity. First, through the adoption of gas and electricity networks for newly built housing installed by Utility Infrastructure Providers ("UIPs"); second, through developing gas network extensions installed to connect existing properties previously not served by the national gas system (known as infill) and third, through adopting gas and electricity industrial and commercial ("I&C") connections for commercial parks.

The Group's management actively nurture relationships with key partners by servicing social landlords for infill projects and also continue to strengthen relationships with UIPs developing new housing networks as well as I&C market participants.

Principal risks and uncertainties

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

The availability of new housing connections from UIPs is dependent on the overall housing market. Given the current economic conditions experienced in the UK housing market the directors have adjusted the forecasted new wins for 2017 accordingly to reflect these conditions.

A large proportion of the infill market the Group targets is driven in part by government programs to bring more affordable (and lower CO_2 emitting) fuel to social housing. Indirectly the Group is partly dependent on government spending without which the number of infill projects developed could reduce.

The Independent Gas Transporter ("iGT") business market currently has four main competitors including the Group. The ownership and operation of gas pipelines represents approximately 48% (2015: 53%) 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 has a number of gas connections built prior to the introduction of RPC, and in percentage terms reducing the connections generating revenue each year, with the transportation tariffs allowed for these connections set according to methodologies in place at the time of installation.

The Group also operates and maintains the meters connected to its gas pipelines. Meter income represents approximately 20% (2015: 22%) of the Group's revenue. The meter market in the UK has been open to competition since 2004 and there is a potential risk that meters could be replaced prematurely resulting in lost income. The Directors have put measures in place to help mitigate this risk.

The Independent Distribution Network (electricity) Operator ("iDNO") business is a maturing market with three main competitors including the Group. The ownership and operations of electricity market represents 32% (2015: 25%) of the Group's revenue; the importance of this market is increasing each year as the market matures and more connections are installed on iDNO networks. Historically, electricity connections installed were adopted by the incumbent DNOs until 2001 when the market was opened to competition allowing iDNOs to adopt electricity connections. The regulatory changes in April 2010 to standardise the iDNOs' tariffs has opened up most of the market to competition, providing greater opportunities to iDNOs. As the market continues to mature it is expected that the iDNOs will obtain a similar market presence as the iGTs in the gas market.

For and on behalf of the Board

J Hector
Director

Date: 11th April 2017

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

Directors

The directors of the Company throughout the year were:

J Hector
S Springett (resigned 03/11/2016)
H Meissner (appointed 03/11/2016)

Disclosure of information to auditors

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

Results and dividend

The consolidated statement of comprehensive income is set out on page 7 and shows the Group's loss for the year. No dividend was paid during the period (2015: nil).

Financial instruments

Liquidity risk and cash flow risk

The Company holds financial instruments to finance its operations and the operations of its subsidiaries. The Group has £442,105,000 (2015: £395,411,000) of debt outstanding. The Directors have controls in place to manage cash flow and maintain interest payments.

As shown in note 15, the Group has entered into long term hedging arrangements to fix the interest payments on part of the debt.

Credit risk

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

Price risk

The Group's balance sheet and income statement is exposed to changes in its transportation tariffs that are regulated by Ofgem. Details are provided in the strategic report.

Likely future developments in the business of the Company

Information on likely future developments in the business of the Company has been included in the Strategic Report on page 1.

Post balance sheet event

On 22nd of December 2016 EISER Finance Limited announced that it had agreed a sale of a portfolio of assets by the EISER Global Infrastructure Fund to a fund managed by 3i Investments plc. This will include Zoom Holding Limited and all its underlying subsidiaries. The sale is subject to certain conditions usual for a transaction of its type and it is anticipated that it would complete in the first half of 2017.

The directors see no change to the group's existing business model or the activities of the group and note that this event does not impact the figures in the accounts as at 31st December 2016.

Auditors

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

From and on behalf of the Board

J Hector
Director

Date : 11th April 2017

Directors' responsibilities

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

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

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

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

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

We have audited the financial statements of Zoom Holding Limited for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statement of changes in equity, the consolidated statement of cash flows 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), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".

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 Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2016 and of the Group's loss 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, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

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

BDO LLP

Anna Draper (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom 13/4/17

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

Zoom Holding Limited

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	3	**45,744**	38,200
Cost of sales		**(16,907)**	(13,532)
Gross profit		**28,837**	24,668
Administrative expenses		**(12,001)**	(11,746)
Group operating profit	4	**16,836**	12,922
Other interest receivable and similar income		**10**	5
Interest payable and similar charges	6	**(21,155)**	(21,202)
Changes in fair value of derivatives	15	**(35,330)**	(6,451)
Loss on ordinary activities before taxation		**(39,639)**	(14,726)
Taxation on loss on ordinary activities	7	**4,229**	(1,337)
Loss for the financial year and total comprehensive loss for the year		**(35,410)**	(16,063)

The notes on pages 14 to 28 form part of these financial statements.

Zoom Holding Limited

Consolidated balance sheet
at 31 December 2016

	Note	2016	2016	2015	2015
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9		**52,614**		58,104
Tangible assets	10		**240,629**		222,939
			293,243		281,043
Current assets					
Deferred tax asset	16	**25,379**		21,150	
Debtors	12	**10,319**		7,452	
Cash at bank and in hand		**6,156**		7,068	
		41,854		35,670	
Creditors: amounts falling due within one year	13	**21,548**		15,600	
Net current assets			**20,306**		20,070
Total assets less current liabilities			**313,549**		301,113
Creditors: amounts falling due after more than one year	14		**475,136**		427,290
Net liabilities			**(161,587)**		(126,177)
Capital and reserves					
Called up share capital	18		**134,241**		134,241
Profit and loss account			**(295,828)**		(260,418)
Equity attributable to owners of the parent company			**(161,587)**		(126,177)

The financial statements were approved by the Board of Directors and authorised for issue on 11th April 2017

J Hector
Director

The notes on pages 14 to 28 form part of these financial statements.

Zoom Holding Limited

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total equity 2016 £'000	Share capital 2015 £'000	Profit and loss account 2015 £'000	Total Equity 2015 £'000
1 January	**134,241**	**(260,418)**	**(126,177)**	90	(244,355)	(244,265)
Comprehensive loss for the year						
Loss for the year	-	**(35,410)**	**(35,410)**	-	(16,063)	(16,063)
Total comprehensive loss for the year	-	**(35,410)**	**(35,410)**	-	(16,063)	(16,063)
Contributions by and distributions to owners						
Share Issue	-	-	-	134,151	-	134,151
Total contributions by and distributions to owners	-	-	-	134,151	-	134,151
31 December	**134,241**	**(295,828)**	**(161,587)**	134,241	(260,418)	(126,177)

The notes on pages 14 to 28 form part of these financial statements.

Zoom Holding Limited

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Loss for the financial year		**(35,410)**	**(16,063)**
Adjustments for:			
Depreciation and amortisation of fixed assets	9/10	**11,799**	**11,917**
Change in fair value of derivatives		**35,330**	**6,451**
Net interest payable		**21,145**	**21,197**
Taxation expense / (credit)	7	**(4,229)**	**1,337**
Increase in trade and other debtors		**(2,866)**	**(1,285)**
Increase in trade creditors		**4,831**	**370**
(Loss) / gain on disposal of tangible fixed assets		**(145)**	**7**
Cash from operations		**30,455**	23,931
Interest paid		**(13,196)**	(12,982)
Taxation paid		-	-
Net cash generated from operating activities		**17,259**	10,949
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets	10	**15**	58
Purchases of tangible fixed assets	10	**(23,196)**	(22,381)
Interest received		**10**	5
Net cash used in investing activities		**(23,171)**	(22,318)
Cash flows from financing activities			
Old bank loans		-	4,834
New bank loans		**5,000**	12,000
Debt issue costs incurred		-	(7,236)
Net cash from financing activities		**5,000**	9,598
Net decrease in cash and cash equivalents		**(912)**	(1,771)
Cash and cash equivalents at beginning of year		**7,068**	8,839
Cash and cash equivalents at end of year		**6,156**	7,068
Cash and cash equivalents comprise:			
Cash at bank and in hand		**6,156**	7,068
		6,156	7,068

Non cash flow fixed asset additions of £949,575 (2015: £3,797,732) have been accrued at the end of the year.

The notes on page 14 to 28 form part of these financial statements.

Zoom Holding Limited

Company balance sheet
at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Investments	11		**113,610**		113,610
			113,610		113,610
Current assets					
Debtors	12	**37,647**		35,493	
Cash at bank and in hand		**995**		1,052	
		38,642		36,545	
Creditors: amounts falling due within one year	13	**2,038**		2,019	
Net current assets			**36,604**		34,526
			150,214		148,136
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	14		**20,238**		18,022
Net assets / (liabilities)			**129,976**		130,114
Capital and reserves					
Called up share capital	18		**134,241**		134,241
Profit and loss account			**(4,265)**		(4,127)
			129,976		130,114

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a loss for the financial year of £138,000 (2015: £1,894,000).

The financial statements were approved by the Board of Directors and authorised for issue on 11th April 2017.

J Hector
Director

The notes on pages 14 to 28 form part of these financial statements.

Zoom Holding Limited

Company statement of changes in equity for the year ended 31 December 2016

	Share capital 2016 £'000	Profit and loss account 2016 £'000	Total equity 2016 £'000	Share capital 2015 £'000	Profit and loss account 2015 £'000	Total Equity 2015 £'000
1 January	134,241	(4,127)	130,114	90	(2,233)	(2,143)
Comprehensive loss for the year						
Loss for the year	-	(138)	(138)	-	(1,894)	(1,894)
Total comprehensive loss for the year	-	(138)	(138)	-	(1,894)	(1,894)
Contributions by and distributions to owners						
Share issue	-	-	-	134,151	-	134,151
Total contributions by and distributions to owners	-	-	-	134,151	-	134,151
31 December	134,241	(4,265)	129,976	134,241	(4,127)	130,114

The notes on pages 14 to 28 form part of these financial statements.

1 Accounting policies

Zoom Holding Limited is a private limited company incorporated in England & Wales under the Companies Act 2006.

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

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 2).

Parent company disclosure exemptions

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

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

The following principal accounting policies have been applied:

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding that at 31 December 2016 the Group had net liabilities of £161,587,000 (2015: net liabilities of £126,177,000) and made a loss for the year of £35,410,000 (2015: £16,063,000). The Group is financed by a mixture of finance provided by shareholders in the form of £20,238,000 (2015: £18,022,000), 12% PIK notes listed on the Channel Islands Stock Exchange, and bank loans which totalled £203,844,000 (£2015: £194,697,000) at the balance sheet date.

Shareholders have confirmed that they have no intention to withdraw any of the instruments provided by them in the foreseeable future.

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 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 26 February 2015 the Group refinanced its external debt borrowings which were due to be repaid on 12 October 2015. The Group's new facilities are in place for five years and consist of a banking syndicate of seven banks providing £275m of senior and junior debt facilities, including working capital and a capital expenditure facility for ongoing asset adoptions as part of normal business activity.

1 Accounting policies *(continued)*

Basis of consolidation

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

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

Turnover

Turnover represents the amount (excluding value added tax) derived from the provision of gas transportation and measurement for gas suppliers, together with electricity distribution charges from its IDNO business during the period. Income from the transport of gas through the Group's pipelines is recognised on the basis of actual or estimated volumes delivered in the financial period and rental income of metering equipment is recognised for rental periods covered by the financial statements. Electricity income is recognised on the basis of actual or estimated consumption in the financial period. Turnover arises solely within the United Kingdom.

Intangible fixed assets - Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the income statement over the directors' estimate of its useful economic life that is considered to be 20 years. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

a) Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets to their estimated residual value by equal instalments over their estimated useful lives as follows:

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

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

b) Third party contributions

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

1 Accounting policies *(continued)*

Impairment of fixed assets and goodwill

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

Investments

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

Pension scheme

The Group operates a defined contribution pension scheme. Contributions to the scheme are charged to the statement of comprehensive income in the period in which they become payable. The assets of the scheme are held separately in an independently administered fund.

Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs that are initially recognised as a reduction in the proceeds of the associated capital instrument.

Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases and their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

1 Accounting policies *(continued)*

Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

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

- The recognition of deferred tax assets is limited to the extent that is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.
- Where timing differences relate to interests in subsidiaries and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

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

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

Financial liabilities and equity

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

Derivative financial instruments

The Group has entered into inflation and interest rate swaps to manage its exposure to interest rate cash flow risk on part of its external debt. These derivatives are measured at fair value at each reporting date with movements in the fair value been recognised in the statement of comprehensive income.

Reserves

The Group and Company's reserves are as follows:

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

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

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

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

3 Analysis of Turnover

	2016 £'000	2015 £'000
Analysis by class of business:		
Gas transportation	**22,034**	20,293
Gas metering	**8,954**	8,226
Electricity distribution	**14,756**	9,681
	45,744	38,200

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

4 Operating profit

This is arrived at after charging/(crediting):	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	**6,309**	6,427
Amortisation of intangible assets, including goodwill	**5,490**	5,490
Release of deferred income on third party contributions	**(659)**	(640)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**10**	10
Fees payable to the Company's auditor and its associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	**121**	100
- Other services	**3**	3
- Tax advisory services	**-**	60
Operating lease – land and buildings	**140**	95

5 Employees

Staff costs (including directors) consist of:	2016 £'000	2015 £'000
Wages and salaries	**2,615**	2,375
Social security costs	**298**	278
Cost of defined contribution pension scheme	**377**	340
	3,290	2,993

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

	2016 Number	2015 Number
Administration	**45**	39
Operations	**19**	16
	64	55

The directors received no remuneration of fees in respect of their services to the Group or Company for the year ending 31st December 2016 (2015: Nil)

6 Interest payable and similar charges

	2016 £'000	2015 £'000
Bank loans	**18,939**	19,149
12% PIK loan note	**2,216**	2,053
	21,155	21,202

7 Taxation on profit on ordinary activities

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
UK corporation tax				
Current tax on profits of the year		-		-
Adjustment in respect of previous periods		-		-
Total current tax		-		-
Deferred tax				
Deferred tax current period	**(5,790)**		264	
Effect of change in tax rate	**1,492**		2,363	
Deferred tax on revaluation of derivative financial instruments	**69**		(1,290)	
		(4,229)		1,337
Total tax (credit) / charge		**(4,229)**		1,337

7 Taxation on profit on ordinary activities *(continued)*

Tax reconciliation

	2016 £'000	2015 £'000
Loss on ordinary activity before tax	**(39,639)**	(14,726)
Current tax at 20% *(2015: 20.25%)*	**(7,928)**	(2,982)
Effects of:		
Expenses not tax deductible	**1,494**	1,956
Prior year adjustment	**69**	-
Effect of change in deferred tax rate	**2,136**	2,363
	(4,229)	1,337

For further information on deferred tax balances see note 16.

8 Parent company profit / (loss) for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company has made a loss for the financial year of £138,000 (2015: £1,894,000).

9 Intangible assets

Group	Goodwill on consolidation £'000
Cost or valuation	
At 1 January 2016	109,067
At 31 December 2016	**109,067**
Amortisation	
At 1 January 2016	50,963
Provision for year	5,490
At 31 December 2016	**56,453**
Net book value	
At 31 December 2016	**52,614**
At 31 December 2015	58,104

10 Tangible fixed assets

Group	Electricity & Gas Networks £'000	Meters £'000	Fixtures, fittings, tools and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2016	232,841	29,294	1,874	344	264,353
Additions	21,034	2,306	594	211	24,145
Disposals	(146)	(415)	(254)	(66)	(881)
At 31 December 2016	**253,729**	**31,185**	**2,214**	**489**	**287,617**
Depreciation					
At 1 January 2016	30,106	9,676	1,535	97	41,414
Provision for year	4,472	1,490	243	104	6,309
Disposals	(15)	(415)	(254)	(51)	(735)
At 31 December 2016	**34,563**	**10,751**	**1,524**	**150**	**46,988**
Net book value					
At 31 December 2016	**219,166**	**20,434**	**690**	**339**	**240,629**
At 31 December 2015	202,735	19,618	339	247	222,939

Non cash flow fixed asset additions of £949,575 (2015: £3,797,732) have been accrued at the end of the year.

11 Fixed asset investments

Company

	Group undertakings £'000
Cost	
At 1 January 2016 and 31 December 2016	**113,610**

11 Fixed asset investments *(continued)*

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

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
*Zoom Infrastructure Limited**	*England & Wales*	*100%*	*Holding company*
Zoom Gas Pipelines Limited	*England & Wales*	*100%*	*Holding company*
ESP Utilities Group Limited	*England & Wales*	*100%*	*Holding company*
E.S. Pipelines Limited	*England & Wales*	*100%*	*Gas transport*
ESP Connections Limited	*England & Wales*	*100%*	*Gas transport*
ESP Networks Limited	*England & Wales*	*100%*	*Gas transport*
ESP Pipelines Limited	*England & Wales*	*100%*	*Gas transport*
ESP Electricity Limited	*England & Wales*	*100%*	*Independent distribution network operator*

* Directly owned

The registered address for Zoom Infrastructure Limited and Zoom Gas Pipelines Limited is 4th Floor, Kent House, 14 – 17 Market Place, London, W1W 8AJ.
The registered address for all investments from ESP Utilities Group and its subsidiaries listed above is Bluebird House, Mole Business Park, Leatherhead, Surrey, KT22 7BA.

12 Debtors

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade debtors	**5,289**	3,840	**-**	-
Loans owed by Group undertakings	**-**	-	**37,197**	35,007
Other amounts owed by Group undertakings	**-**	-	**450**	450
Other debtors	**56**	46	**-**	36
Prepayments and accrued income	**1,852**	630	**-**	-
Deposits	**3,122**	2,936	**-**	-
	10,319	7,452	**37,647**	35,493

The amount owed by Group undertakings is repayable on demand.

13 Creditors: amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Trade creditors	**11,622**	10,713	**-**	-
Other creditors	**803**	656	**17**	-
Accruals and deferred income	**8,990**	4,113	**15**	13
Other taxation and social security	**133**	118	**-**	-
Loan due to Group undertaking	**-**	-	**2,006**	2,006
	21,548	15,600	**2,038**	2,019

Loan due to Group undertaking is interest free and repayable on demand.

14 Creditors: amounts falling due after more than one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Bank loans	**203,843**	194,697	-	-
Derivatives (refer note 15)	**218,023**	182,692	-	-
Equity loan notes	-	-	-	-
12% PIK notes	**20,238**	18,022	**20,238**	18,022
Deferred income	**33,032**	31,879	-	-
	475,136	427,290	**20,238**	18,022

The bank loan is repayable in full in February 2020 and is currently attracting interest at a weighted average basis of 4.45% (2015: 4.95%) above LIBOR.

The bank loan is secured by a first fixed and floating charge over the assets of the Group.

The 12% PIK loan notes are listed on the Channel Island Stock Exchange and mature in 2036.

The deferred income relates to contributions, from owner-occupiers of premises, partly to offset the capital expenditure on the infill networks that are received at the time of initial connection. These receipts are released to the statement of comprehensive income, as a reduction in the depreciation charge, over the useful life of the related assets.

The maturity of sources of debt finance is as follows:

Group

	Loans and overdrafts 2016 £'000	Loans and overdrafts 2015 £'000
In one year or less, or on demand	-	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years	**203,843**	194,697
In more than five years	**238,261**	200,714
	442,104	395,411

Company

	Loans and overdrafts 2016 £'000	Loans and overdrafts 2015 £'000
In one year or less, or on demand	-	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	**20,238**	18,022
	20,238	18,022

15 Financial instruments

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

	Group 2016 £'000	Group 2015 £'000
Financial assets		
measured at amortised cost:		
Cash at bank	6,156	7,068
Trade debtors	5,289	3,840
Other debtors	56	46
Deposits	3,122	2,936
Financial liabilities		
measured at amortised cost:		
Trade creditors	11,622	10,713
Other creditors	803	656
Accrual	8,329	3,573
Bank loans	203,843	194,697
Equity loan notes	-	-
12% PIK notes	20,238	18,022
measured at fair value through profit and loss:		
Derivatives	218,023	182,692

Derivatives measured at fair value

An Inflation Rate swap (notional amount £112,500,000) and the Interest Rate swaps (notional value £37,500,000 and £42,000,000) are (primarily) for the purpose of managing the Group's exposure against interest rate movements. The market value of the swaps has been estimated by the arranger investment banks on the basis of similar marketable swaps. The fair value movement in the swaps amounted to £35,330,000 (2015: £6,451,000).

16 Deferred tax

	2016 £'000	2015 £'000
Group		
At 1 January	21,150	22,487
Charged to profit or loss	4,229	(1,337)
At 31 December	25,379	21,150
Comprising:		
Deferred tax asset	37,087	32,908
Deferred tax liability	(11,708)	(11,758)
	25,379	21,150

16 Deferred tax *(continued)*

Deferred tax - Group

	31 December 2016 £'000	31 December 2015 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**11,708**	11,758
Other timing differences	**-**	(24)
Deferred tax on revaluation of derivative financial instruments	**(37,087)**	(32,884)
	(25,379)	(21,150)

The Group has an un-provided deferred tax asset of £1,621,000 (2015: £1,621,000) relating to non-trade loan relationship deficits that the directors do not consider can be utilised in the foreseeable future and has therefore not been offset against the deferred tax liability.

It is estimated that deferred tax liabilities arising on fixed assets will not reverse in the next accounting period. It is not possible to quantify the reversal of the deferred tax asset on the derivative financial instruments as that is dependent on their fair value at the end of that year which cannot be computed at this stage.

The deferred tax asset balance is considered to be classified as greater than one year.

17 Pensions

Defined contribution scheme

The amount recognised in the statement of comprehensive income as an expense in relation to the Group's defined contribution schemes is £376,812 (2015: £339,804). There were no amounts owing at the year end.

18 Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
134,201,000 ordinary shares of £1 each	**134,201**	134,201
40,000 'B' shares of £1 each	**40**	40
	134,241	134,241

The holders of the B shares shall have no rights to any distribution of profits of the Company, secondly they shall have no rights to vote on any question, and thirdly the holders of the B shares shall between them be entitled to the B shareholder proportion of the Capitalisation Value on the occurrence of a Liquidity Event as laid down within the Articles of Association.

19 Commitments under operating leases

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

	2016 £'000	2015 £'000
Not later than 1 year	**216**	95
Later than 1 year and not later than 5 years	**928**	95
Later than 5 years	**971**	-
Total	**2,115**	190

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

20 Capital commitments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Contracted but not provided for	**68,783**	64,753	-	-

21 Related party disclosures

The parent undertaking by shareholding is EISER Infrastructure Limited, acting on behalf of EISER Global Infrastructure Fund ("the Fund").
The Fund consists of five English Partnerships: EISER Infrastructure Capital Equity Partners 1-A, EISER Infrastructure Capital Equity Partners 1-B, EISER Infrastructure Capital Equity Partners 1-C, EISER Infrastructure Capital Equity Partners 1-D and EISER Infrastructure Co-Investment Partners 1, L.P. (the "Partnerships") as Limited Partnerships in the Fund under the Limited Partnerships Act 1907.

The Company is ultimately controlled by EISER Infrastructure Partners LLP, an entity incorporated in the England and Wales.

Debt instruments due to the parent undertaking, the 12% PIK Notes, are disclosed in note 1 and 14 and interest accrued on these instruments disclosed in note 6.

The directors consider that all related party transactions have been appropriately disclosed.

The directors of Zoom Holding Limited have received no remuneration in 2016 (2015: nil) and are considered to be key management personnel.

22 Segmental information

Description of segments

The Group has five trading subsidiaries licenced by Ofgem: 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.

Factors that management use in identification of segments

The Group's reportable segments are based along the lines of i) Gas Transportation companies of which there are four licenced companies and ii) One Electrical distribution licence company.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team and directors of ESP Utilities Group Limited.

Measurement of operating segment profit, assets and liabilities

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with FRS102 but excluding non-recurring losses, such as goodwill impairment, financing loans and deferred tax movements relating to financing loans and derivative financial instruments.

Segment assets exclude tax assets and assets used primarily for corporate purposes. Segment liabilities exclude tax liabilities.

	Electricity 2016 £'000	**Gas 2016 £'000**	**Total 2016 £'000**	Electricity 2015 £'000	Gas 2015 £'000	Total 2015 £'000
Group's turnover per consolidated statement of comprehensive income	**14,756**	**30,988**	**45,744**	9,681	28,519	38,200
Depreciation	**(253)**	**(6,056)**	**(6,309)**	(665)	(5,532)	(6,197)
Segment profit	**3,691**	**7,909**	**11,600**	1,773	6,683	8,456
Cost of Sales			**(229)**			(229)
Administrative expenses			**(115)**			(414)
Amortisation			**(5,490)**			(5,490)
Financial expenses			**(10,085)**			(10,601)
Financial income			**10**			3
Change in fair value of derivatives			**(35,330)**			(6,451)
Group loss before tax			**(39,639)**			(14,726)

22 Segmental information *(continued)*

	Electricity 2016 £'000	Gas 2016 £'000	Total 2016 £'000	Electricity 2015 £'000	Gas 2015 £'000	Total 2015 £'000
Additions to non-current assets	**7,899**	**16,246**	**24,145**	9,910	16,269	26,179
Reportable segment assets	**34,269**	**209,796**	**244,065**	23,939	199,420	223,359
Intangible assets			**52,614**			58,104
Tangible assets			**11,370**			11,601
Tax assets			**25,379**			21,150
Cash at bank and in hand			**1,669**			2,499
Total Group assets			**335,097**			316,713
Reportable segment liabilities	**30,202**	**169,030**	**199,232**	23,552	166,467	190,019
Loans and borrowings (excluding leases and overdrafts)			**89,147**			79,742
Derivative financial liabilities			**218,023**			182,692
Deferred tax			**(9,753)**			(9,647)
Other liabilities			**35**			84
Total Group liabilities			**496,684**			442,890

Analysis of the Group's Revenue has identified that the Group has three Key customers (combined gas and electricity utilities) whose turnover is greater than 10% and their percentages are: 27.2%, 20.3%, and 11.3% (2015: four customers 28.9%, 20.3%, 11.1% and 10.0%).

23 Post Balance Sheet event

On 22nd of December 2016 EISER Finance Limited announced that it had agreed a sale of a portfolio of assets by the EISER Global Infrastructure Fund to a fund managed by 3i Investments plc. This will include Zoom Holding Limited and all its underlying subsidiaries. The sale is subject to certain conditions usual for a transaction of its type and it is anticipated that it would complete in the first half of 2017.

The directors see no change to the group's existing business model or the activities of the group and note that this event does not impact the figures in the accounts as at 31st December 2016.