

Company Registration No. 02742721

Indigo Pipelines Limited

Annual Report and Financial Statements

For the year ended 31 March 2019



Indigo Pipelines Limited

Report and financial statements 2019

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Indigo Pipelines Limited

Report and financial statements 2019

Officers and professional advisers

Directors

Gary Barnes
Kevin Bennett
Gary Le Sueur (Resigned 28 February 2019)
Andrew Low (Resigned 28 February 2019)
Antony Robison (Resigned 28 February 2019)
Adam Delaney (Resigned 28 February 2019)
Roxane Parfond (Appointed 28 February 2019)
Charles Hazelwood (Appointed 28 February 2019)
Andrew Blinco (Appointed 28 February 2019)
Surinder Toor (Appointed 28 February 2019)

Registered Office

Loddon Reach Reading Road
Arborfield
Reading
Berkshire
England
RG2 9HU

Bankers

The Royal Bank of Scotland plc
City of London
1 Princess Street
London
EC2R 8BP

Solicitors

Dentons UKMEA LLP
1 George Square
Glasgow
G2 1AL

Auditor

Deloitte LLP
Statutory Auditor
110 Queen Street
Glasgow
G1 3BX
United Kingdom

Indigo Pipelines Limited

Strategic report

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Strategy and Objectives

Indigo Pipelines Limited (“The Company”) is principally focused on the provision and maintenance of gas connections and gas transportation services for customers in the property development and house building sectors in the UK. The Company contracts with SSE Utility Solutions Limited to use its extensive experience in the sector to design and construct new connections and to ensure the highest standards of compliance are achieved within the health and safety requirements. SSE Utility Solutions Limited is also contracted to manage existing connections on behalf of the Company.

The Company is regulated by Ofgem, and is responsible for safely transporting gas through its networks. The Company does not sell gas to consumers but ensures it is safely and efficiently delivered to the end customer on behalf of gas shippers.

Key Performance Indicators and Business Review

The Company is a licensed gas transporter, acquiring, owning and operating gas connections on housing and commercial developments throughout the UK. The total number of connections owned by the Company increased during the year and was 182,004 as at 31 March 2019 (2018: 175,063).

Management actively monitor the performance of the business through reviewing the services provided to it by SSE Utility Solutions Limited and measuring the financial performance and profitability of the Company.

Operating profit in the year, after adjusting for Exceptional Items, increased to £6,671,000 from £6,269,000 primarily due to underlying growth in the business.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company concern the quality of service delivery provided by SSE Utility Solutions Limited and ensuring the Company’s network is operated in a safe and regulatory compliant manner. These areas are actively monitored by the Board of Directors to ensure continued quality of service delivery.

The Board of Directors also manage the financial risk of the business through ensuring it continues to operate profitably and according to its business plan. Management of financial risks include the directors ensuring appropriate controls are in place with regard to cash control, working capital management and the effective collection of debtors.

Compliance risks (such as anti-bribery, anti-fraud, data protection and regulation) are managed by prudent and verifiable controls.

The Company aims to achieve a zero harm target to life, property and the environment and this is the absolute priority of all operations.

Indigo Pipelines Limited

Strategic report (continued)

Future Developments

On 28 February 2019, Edingho Bidco Limited, a company ultimately controlled by AIP Holdings Limited, agreed to buy the entire issued share capital of Indigo Pipelines Holdco 1 Limited (indirect owner of Indigo Pipelines Limited, from its ultimate owner, the Environmental Capital Fund LP, an infrastructure fund managed by Scottish Equity Partners LLP.

Despite the change in ultimate control and ownership, the newly appointed directors intend for the business to continue to operate in line with its financial forecasts, contractual terms and do not anticipate any material strategic changes to the current business plan.

Looking forward, the Company is well placed to continue to grow its connections as the UK economy expands and construction activity increases. The Company has been successful in increasing its number of installed connections to over 182,000 residential and commercial properties across the UK. The Company enters 2019/20 with a strong pipeline of new gas connection opportunities and continues to build on its existing number of connections with customers through the acquisition of further gas connections constructed by SSE Utility Solutions Limited. The Board of Directors is also assessing opportunities to deliver additional growth in the number of new connections being secured.

Approved by the Board of Directors and signed on behalf of the Board



Andrew Blincow
Director
07 June 2019

Indigo Pipelines Limited

Directors' report (continued)

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

Results and dividends

The profit for the financial year amounted to £3,375,000 (2018: £3,594,000). The directors declared and paid dividends of £2,400,000 (2018: £2,600,000) during the year.

Future developments

Details of future developments can be found in the Strategic Report on page 3.

Directors

The directors who served during the year and up to the date of this report are as follows:

Gary Barnes
Kevin Bennett
Gary Le Sueur (Resigned 28 February 2019)
Andrew Low (Resigned 28 February 2019)
Antony Robison (Resigned 28 February 2019)
Adam Delaney (Resigned 28 February 2019)
Roxane Parfond (Appointed 28 February 2019)
Charles Hazelwood (Appointed 28 February 2019)
Andrew Blincow (Appointed 28 February 2019)
Surinder Toor (Appointed 28 February 2019)

Director's indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Financial risk management objectives and policies

The Company's activities expose it primarily to a number of financial risks including: price risk, cash flow risk, credit risk and liquidity risk, as detailed below:

Credit, cash flow and liquidity risk

The Company has an arrangement with Indigo Pipelines Holdco 2 Limited to be charged interest at a margin over the effective interest rate that Indigo Pipelines Holdco 2 Limited is charged by its lenders. The underlying interest rate is managed by Indigo Pipelines Holdco 2 Limited through an interest rate swap.

The Company's principal financial assets are bank balances and trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of a provision for doubtful receivables. The level of credit risk is considered to be low as the customers are primarily gas shippers who accept invoices deemed to be correct under Ofgem regulations. The Company has no significant concentration of credit risk, with exposure across a large number of gas shippers.

The directors consider the liquidity risk to the business to be low. The majority of cash flows are addressed by means of contractual provisions, with cash flows generated under Ofgem regulated practices.

Price risk

The Company's exposure to price risk is considered low. Fluctuations in transportation revenue are low and determined under the Relative Price Control (RPC) mechanism in place for Independent Gas Transporters.

Political and economic risk

The Company is not subject to material risk from the decision of the United Kingdom to leave the European Union.

Indigo Pipelines Limited

Directors' report (continued)

Environmental and climate risk

The Company is not subject to material risks or opportunities related to climate change. This is continually monitored by the Board as part of the risk assessment process

Going Concern

The Board of Directors expects that the strong operational and financial performance of the business will continue into 2019/20 and beyond, in line with its business plan. The Company is a wholly owned subsidiary of Indigo Pipelines Holdco 2 Limited, which in turn is wholly owned by Indigo Pipelines Holdco 1 Limited – collectively “the Group”.

The Group has lending arrangements in place with external borrowers, which are subject to regular covenant testing. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to continue to be profitable and cash generative going forward. The forecasts give due regard to available banking facilities and show that the Group will continue to remain within related covenant requirements.

On this basis the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Auditor

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

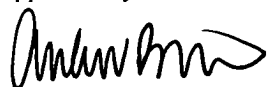
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's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

Deloitte LLP was re-appointed by the directors during the year.

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



Andrew Blincow
Director
07 June 2019

Indigo Pipelines Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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; and
- 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 members of Indigo Pipelines Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Indigo Pipelines Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 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 profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 21.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Indigo Pipelines Limited (*continued*)

Other information

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

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

We have nothing to report in respect of these matters.

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.

Independent auditor's report to the members of Indigo Pipelines Limited (*continued*)

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 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 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

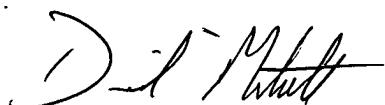
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



David Mitchell CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

7 JUNE 2019

Indigo Pipelines Limited

Profit and loss account For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	18,777	16,987
Cost of sales		(7,211)	(6,424)
Gross Profit		<u>11,566</u>	<u>10,563</u>
Distribution costs		(4,375)	(3,966)
Administrative expenses		(520)	(328)
Exceptional costs	5	(404)	-
Operating profit	4	<u>6,267</u>	<u>6,269</u>
Interest receivable	8	17	4
Interest payable	9	(2,084)	(1,898)
Profit before taxation		<u>4,200</u>	<u>4,375</u>
Tax charge on profit	10	(825)	(781)
Profit for the financial year		<u><u>3,375</u></u>	<u><u>3,594</u></u>

The above results are derived from continuing operations unless otherwise noted.

The Company has no other recognised gains or losses other than the profit in both the current and comparative year. Accordingly, no Statement of Comprehensive Income has been presented.

The accompanying notes form part of these financial statements.

Indigo Pipelines Limited

Balance sheet As at 31 March 2019

	Notes	2019 £'000	2018 £'000
Intangible fixed assets	12	100	127
Fixed assets	13	83,774	80,538
Current assets			
Debtors	14	3,248	2,966
Cash		7,136	4,040
		10,384	7,006
Creditors: amounts falling due within one year	15	(7,359)	(7,618)
Net current liabilities		3,025	(612)
Total assets less current liabilities		86,899	80,053
Creditors: amounts falling due after more than one year	16	(65,044)	(59,595)
Provisions for liabilities and charges			
Deferred tax	17	(2,622)	(2,200)
Net assets		19,232	18,258
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account		19,232	18,258
Shareholders' funds		19,232	18,258

The financial statements of Indigo Pipelines Limited, registered number 02742721 were approved by the Board of Directors and authorised for issue on 07 June 2019.

Signed on behalf of the Board of Directors



Andrew Blincow
Director

Indigo Pipelines Limited

Statement of changes in equity For the year ended 31 March 2019

	Notes	Called Up Share Capital £'000	Profit & Loss Account £'000	Total Equity £'000
At 1 April 2017		-	17,264	17,264
Profit for the financial year		-	3,594	3,594
Total comprehensive income		-	20,858	20,858
Equity dividends paid	11	-	(2,600)	(2,600)
At 31 March 2018		-	18,258	18,258
Profit for the financial year		-	3,375	3,375
Total comprehensive income		-	21,632	21,632
Equity dividends paid	11	-	(2,400)	(2,400)
At 31 March 2019		-	19,232	19,232

Indigo Pipelines Limited

Notes to the financial statements For the year ended 31 March 2019

1. Principal accounting policies

The principal accounting policies are summarised below and have been applied consistently throughout the year and to the preceding year.

General Information and basis of accounting

Indigo Pipelines Limited is a limited liability company incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 and 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Indigo Pipelines Limited meets the definition of a qualifying entity under FRS 102 and therefore has taken advantage of the exemption in relation to financial instruments, disclosure of intra-group transactions and presentation of cash flow statement on the grounds that the ultimate parent undertaking, Indigo Pipelines Holdco 1 Limited, includes the Company in its own published consolidated financial statements.

Going concern

The Board of Directors expects that the strong operational and financial performance of the business will continue into 2019/20 and beyond, in line with its business plans.

The Group has lending arrangements in place with external borrowers, which are subject to regular covenant testing. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to continue to be profitable and cash generative going forward. The forecasts give due regard to available banking facilities and show that the Group will continue to remain within related covenant requirements.

On this basis the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Turnover

Turnover, stated exclusive of Value Added Tax, relates to gas network distribution income in the UK and is recognised when the significant risks and rewards are considered to have been transferred to the customer.

Intangible Fixed Assets

Software development costs attributable to the operational enhancement of the Company's core database for managing its pipeline connections have been capitalised as intangible fixed assets and are stated at cost, net of amortisation and any provision for impairment. Amortisation is only charged at the point from which the intangible asset is deemed to be in use. Amortisation is provided on all intangible fixed assets, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Software development costs – 5 years

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

1. Principal accounting policies (continued)

Tangible Fixed Assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset to nil on a straight-line basis over its expected useful life, as follows:

Gas distribution networks - 40 years

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provision of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.
- (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
- (d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

1. Principal accounting policies (continued)

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

(i) Financial assets and liabilities

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

1. Principal accounting policies (continued)

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Borrowing costs

The Company does not capitalise borrowing costs that are directly attributable to the construction of tangible fixed assets. These are expensed in the period in which they are incurred.

Customer contributions and capital grants

Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed asset.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the current period the directors do not consider there to be any critical accounting judgments or any key source of estimation uncertainty.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

3. Turnover

An analysis of the Company's turnover is as follows:

	2019 £'000	2018 £'000
Rendering of services		
Gas network transportation and meter income	18,561	16,794
Other income	216	193
	<u>18,777</u>	<u>16,987</u>

4. Operating profit

Operating profit is stated after charging / (crediting):

	2019 £'000	2018 £'000
Depreciation	2,462	2,297
Amortisation	27	7
Release of deferred income in relation to customer contributions and capital grants	(592)	(592)
	<u></u>	<u></u>

The analysis of the auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>20</u>	<u>19</u>
Taxation compliance services	9	9
Other consultancy services	<u>35</u>	<u>-</u>
Total non-audit fees	<u>44</u>	<u>9</u>

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

5. Exceptional items

	2019 £'000	2018 £'000
Vendor due diligence costs	404	-
	<u>404</u>	<u>-</u>

One-off exceptional vendor due diligence costs totalling £404,000 (2018: £nil) were incurred during the year in connection with the change of ownership (Note 20).

6. Staff costs and numbers

The Company employs no staff. Prior to the change in ultimate ownership (Note 20), a monthly management charge from Scottish Equity Partners LLP of £5,000 (2018: £5,000) for services provided to the Company was recharged to the Company by a Group undertaking.

7. Directors' remuneration

	2019 £'000	2018 £'000
Directors' emoluments	88	21
	<u>88</u>	<u>21</u>

Three (2018: One) directors received fees in respect of their services to the Company during the year. The highest paid director received remuneration of £40,500 (2018: £20,500). No pension contributions were paid or outstanding during the year. No directors were paid or are due to be paid based on arrangements falling within the meaning of s33F(s) Gas Act 1986.

8. Interest receivable

	2019 £'000	2018 £'000
Interest receivable	17	4
Total interest receivable	<u>17</u>	<u>4</u>

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

9. Interest payable

	2019 £'000	2018 £'000
Interest payable to group undertakings	(2,084)	(1,898)
Total interest payable	<u>(2,084)</u>	<u>(1,898)</u>

10. Taxation

	2019 £'000	2018 £'000
Current tax:		
United Kingdom corporation tax	403	351
Adjustments in respect of previous years.	-	-
	<u>403</u>	<u>351</u>
Deferred tax:		
Origination and reversal of timing differences	422	480
Effect of change in tax rate	-	(50)
Total Deferred tax	<u>422</u>	<u>430</u>
Total tax on profit on ordinary activities	<u>825</u>	<u>781</u>

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

10. Taxation (*continued*)

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2019	2018
	£'000	£'000
Profit before tax	4,200	4,375
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	798	831
Effects of:		
Expenses not deductible	77	112
Income not taxable	-	(112)
Effect of s198 election	-	-
Tax rate changes	(50)	(50)
Tax charge for year	<u>825</u>	<u>781</u>

The main rate of corporation tax was reduced from 20% to 19% from 1 April 2017. The 2016 Finance Bill was substantively enacted on 6 September 2016 and announced that the U.K corporation tax bill will be reduced to 17% by 2020. Existing timing differences on which deferred tax has been provided may therefore unwind in periods subject to this reduced rate. The deferred tax liability at 31 March 2019 has therefore been calculated having regard to the rate of 17% substantively enacted at the balance sheet date.

11. Dividends

Dividends paid during the year:

	2019	2018
	£'000	£'000
Interim dividend of £1,200,000 (2018: £800,000) per ordinary share	2,400	1,600
Final dividend of £nil (2018: £500,000) per ordinary share	<u>-</u>	<u>1,000</u>

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

12. Intangible fixed assets

	Development costs £'000	Total £'000
Cost:		
At 1 April 2018	134	134
Additions	0	0
At 31 March 2019	134	134
Depreciation:		
At 1 April 2018	7	7
Charge for the year	27	27
At 31 March 2019	34	34
Net book value		
At 31 March 2019	100	100
At 31 March 2018	127	127

Software development costs attributable to the Company's pipeline connections IT database have been capitalised as intangible fixed assets and are stated at cost, net of amortisation and any provision for impairment.

13. Tangible fixed assets

	Computer Equipment £'000	Gas Network Assets £'000	Total £'000
Cost:			
At 1 April 2018	-	96,537	96,537
Additions	4	5,694	5,698
At 31 March 2019	4	102,231	102,235
Depreciation:			
At 1 April 2018	-	15,999	15,999
Charge for the year	-	2,462	2,462
At 31 March 2019	-	18,461	18,461
Net book value			
At 31 March 2019	4	83,770	83,774
At 31 March 2018	-	80,538	80,538

At 31 March 2019, the Company had committed to pay circa £752,000 (2018: £987,000) for new gas connections that were energised in the month of March 2019. The Company is charged on a quarterly basis and the connections for March 2019 will not be invoiced until the end of June 2019 when the value can be ascertained. These have been accrued for at the estimated cost of £752,000 (2018: £987,000) and included within additions above.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

14. Debtors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade debtors	87	59
Prepayments and accrued income	1,658	1,512
Other debtors	1,487	1,395
Amounts owed by Group companies	16	-
	<u>3,248</u>	<u>2,966</u>

15. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	3,792	4,582
Accruals and deferred income	3,204	2,753
Corporation tax	208	175
Group relief payable	40	13
Other creditors	115	95
	<u>7,359</u>	<u>7,618</u>

16. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Accruals and deferred income	17,734	18,326
Amount due to group undertakings (note 19)	47,310	41,269
	<u>65,044</u>	<u>59,595</u>

The Company has three loans from Indigo Pipelines Holdco 2 Limited. The term and keepwell facilities are charged at a fixed rate plus an additional 1% margin. The capex facility is charged at the floating bank rate plus 1% margin.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

17. Deferred taxation

Deferred taxation is provided as follows:

	2019 £'000	2018 £'000
Accelerated capital allowances	2,622	2,200
	2019 £'000	2018 £'000
Provision at start of the year	2,200	1,770
Charged to profit and loss account	422	430
Provision at end of year	2,622	2,200

18. Share capital and reserves

Allotted and called up:	Number	£
At 1 April 2018 and 31 March 2019		
Two ordinary shares of £1 each	2	2

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

19. Ultimate Holding Company

The immediate parent undertaking is Indigo Pipelines Holdco 2 Limited.

The intermediate parent undertaking is Indigo Pipelines Holdco 1 Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Indigo Pipelines Holdco 1 Limited consolidated financial statements can be obtained from the Company Secretary at Loddon Reach, Reading Road, Aborfield, Reading, RG2 9HU.

On 28 February 2019, Edingho BidCo Limited acquired the entire issued share capital of Indigo Pipelines Holdco 1 Limited, from the Environmental Capital Fund LP, an infrastructure fund and ultimate parent company, managed by Scottish Equity Partners LLP.

Edingho BidCo Limited is now recognised as the immediate parent, a company ultimately controlled by AIP Holdings Limited. Mr. Toor, a director of the Company, and members of his close family, control the Company as a result of controlling, directly or indirectly, 100 per cent of the issued share capital of the Company.

Indigo Pipelines Limited

Notes to the financial statements (continued) For the year ended 31 March 2019

20. Related party transactions

Other related party transactions

Prior to the acquisition of Indigo Pipelines Limited, the Company was owned by SSE plc. All overhead services were recharged from SSE plc to the Company in the ordinary course of business. After the Company was acquired by Indigo Pipelines Holdco 2 Limited in 2014, the Company entered a Management Services Agreement (MSA), a Metering Agreement (MA) and Master Development Contract (MDC) with SSE Utility Solutions Limited (a group undertaking of SSE plc). As a result of this arrangement, Indigo Pipelines Limited earned a management fee of £216,000 (2018: £193,000) from SSE Utility Solutions. Gross amounts owing for the MSA, MA and MDC at 31 March 2019 were £493,000, £2,128,000 and £1,160,000 respectively (2018: £465,000, £1,900,000 and £2,205,000 respectively).

In addition, via a recharge from another group undertaking, during the year and prior to the change in ownership the Company paid a monthly management charge of £5,000 to Scottish Equity Partners LLP. The total management charge for year ended 31 March 2019 is £55,000 (2018: £60,000). As at 31 March 2019 £nil (2018: £nil) was due to Scottish Equity Partners LLP.

Certain services are provided by Scottish Equity Partners LLP. The costs in relation to such services provided to the Company are included within the monthly management fee detailed in note 5.

The Company has three loans from Indigo Pipelines Holdco 2 Limited (note 15). The term and keepwell facilities are charged at a fixed rate plus an additional 1% margin. The capex facility is charged at the floating bank rate plus 1% margin.

21. Financial commitments

At the year end the Company is a guarantor of the capex element of the banking facilities of its parent company. The total borrowings outstanding in relation to this facility at the year end were £19,258,000 (2018: £13,217,000).