

Report and Accounts

*Independent Pipelines
Limited* 2003/04

31 December 2003



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Independent Pipelines
Limited

Independent Pipelines Limited

Registered No. 2828692

DIRECTORS

R Fisher
D Houghton
R Ward

SECRETARY

R Ward

AUDITORS

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

BANKERS

The Royal Bank of Scotland plc
PO Box 412
62/63 Threadneedle Street
London
EC2R 8LA

REGISTERED OFFICE

Ocean Park House
East Tyndall Street
Cardiff
CF24 5GT

Independent Pipelines Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2003.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £771,083 (2002: loss £952,169). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

During the year the company continued to own and operate gas distribution infrastructure in the UK. The company expects to continue with these activities.

REVIEW OF RESULTS AND FUTURE PROSPECTS

The company performed in line with expectations during the year. The directors are satisfied that the company is well placed to continue to perform satisfactorily during the coming year.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year ended 31 December 2003 are shown below.

R Fisher
D Houghton
R Ward

No director held any interest in the issued share capital of the company during the year. The interests of D Houghton and R Ward in the issued share capital of the holding company, Inexus Group (Holdings) Limited, which remained unchanged throughout the year are disclosed in its accounts. The interests of R Fisher in the issued share capital of the holding company, which remained unchanged throughout the year, are 20 A Ordinary Shares of 0.1p and 9,998 A Fixed Rate Preference Shares of £1.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN REPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which 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 those accounts, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the accounts.

Independent Pipelines Limited

DIRECTORS' REPORT

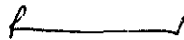
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Secretary



29 July 2004

Independent auditors' report to the members of Independent Pipelines Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

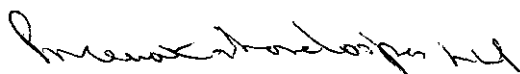
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

29 July 2004

Independent Pipelines Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2003

	Notes	2003 £	2002 £
TURNOVER	2	16,922,104	14,163,072
Cost of sales		(4,887,092)	(4,220,439)
GROSS PROFIT		12,035,012	9,942,633
Administrative expenses		(4,788,316)	(3,862,592)
OPERATING PROFIT	4	7,246,696	6,080,041
Bank interest receivable		14,314	5,997
Interest payable and similar charges	6	(6,149,069)	(7,456,675)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		1,111,941	(1,370,637)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(340,858)	418,468
PROFIT / (LOSS) FOR THE YEAR	14	771,083	(952,169)

Turnover and operating profit are wholly derived from continuing operations.


The company has no recognised gains or losses in the year other than the profit/(loss) stated above.

Independent Pipelines Limited

BALANCE SHEET

at 31 December 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	8	84,270,549	77,558,584
CURRENT ASSETS			
Debtors	9	4,083,296	1,497,947
Cash at bank and in hand		5,422	813
CREDITORS: amounts falling due within one year	10	4,088,718 (6,288)	1,498,760 (1,191,416)
NET CURRENT ASSETS		4,082,430	307,344
TOTAL ASSETS LESS CURRENT LIABILITIES		88,352,979	77,865,928
CREDITORS: amounts falling due after more than one year	11	(82,300,717)	(73,891,022)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(5,768,946)	(4,462,673)
NET ASSETS / (LIABILITIES)		283,316	(487,767)
CAPITAL AND RESERVES			
Called up share capital	13	3	3
Share premium account	14	8,427,999	8,427,999
Profit and loss account	14	(8,144,686)	(8,915,769)
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	14	283,316	(487,767)



Director

29 July 2004

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No. 1 (revised 1996) on the grounds that it is a wholly owned subsidiary.

Fixed Assets

Fixed assets represent completed infrastructure. Infrastructure comprises costs incurred in the design, financing and construction of the project, and includes attributable overheads and interest.

Depreciation

Infrastructure costs are amortised on a straight line basis over the estimated useful lives detailed below. This is done on a project by project basis, with amortisation commencing when the company starts receiving transportation income from that project. The estimated useful lives are as follows:

Infrastructure	–	20 years
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Deferred taxation

Deferred taxation is recognised as an asset or liability where transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future or a right to pay less taxation in future. Deferred tax assets are recognised to the extent that their recovery is more likely than not.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted, or are substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions and other post retirement benefits

The company operates a defined contribution scheme operated by Norwich Union plc. The contributions made by the company to this scheme are charged to the profit and loss account as they fall due. The company's pension contributions of £2,594 (2002: £nil) have been charged to the profit and loss account in the year. Included in creditors is £216 in respect of employee and employer contributions not paid to the scheme at 31 December 2003 (2002: £nil).

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

2. TURNOVER

Turnover represents the amount derived from the provision of goods and services falling within the company's activities, net of Value Added Tax.

3. STAFF COSTS

	2003 £	2002 £
Wages and salaries	30,236	-
Social security costs	3,187	-
Other pension costs (note 1)	2,594	-
	<u>36,017</u>	<u>-</u>

4. OPERATING PROFIT

This is stated after charging:

	2003 £	2002 £
Depreciation of owned fixed assets (note 8)	4,742,299	3,862,592
Auditors' remuneration	10,000	10,353
	<u>4,752,299</u>	<u>3,872,945</u>

Amounts payable to auditors for other services were £53,421 (2002: £5,647).

5. DIRECTORS' EMOLUMENTS

	2003 £	2002 £
Emoluments	30,236	-
Company contributions to money purchase scheme	2,594	-
	<u>32,830</u>	<u>-</u>

One director was remunerated for his services during the year (2002: nil) and is accruing retirement benefits under the group money purchase pension scheme (2002: nil). The other directors of the company are directors/employees of other group companies and the services that they provide to the company are considered ancillary to the services that they provide to those companies.

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

6. INTEREST PAYABLE

	2003 £	2002 £
Interest payable to ultimate parent undertaking	5,507,320	5,505,181
Interest payable to fellow subsidiary	404,864	108,794
Loan issue costs amortised	236,885	2,295,896
Less: interest capitalised	-	(453,196)
	<u>6,149,069</u>	<u>7,456,675</u>

7. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

	2003 £	2002 £
Current tax credit		
Group relief credit for surrender of current year losses	524,817	-
Consortium relief of prior year losses	354,871	-
Group relief of prior year losses	85,727	-
	<u>965,415</u>	<u>-</u>
Deferred taxation		
Accelerated capital allowances	(1,142,745)	(1,470,920)
Losses	284,346	1,889,388
Under provision in prior years	(447,874)	-
	<u>(1,306,273)</u>	<u>418,468</u>
Total deferred tax (charge)/credit		
	<u>(340,858)</u>	<u>418,468</u>
Total (charge) / credit on profit / (loss) on ordinary activities		
	<u>(340,858)</u>	<u>418,468</u>
RECONCILIATION OF CURRENT TAX CREDIT	£	£
Profit/(loss) before taxation	1,111,941	(1,370,637)
Tax at 30%	(333,582)	411,192
Profits relieved by tax losses	(284,346)	(1,882,112)
Other timing differences	1,142,745	1,470,920
Adjustments to tax charge in respect of prior year	440,598	-
	<u>965,415</u>	<u>-</u>

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

8. TANGIBLE FIXED ASSETS

	<i>Gas Infrastructure £</i>
Cost:	
At 1 January 2003	89,248,152
Additions	11,454,264
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At 31 December 2003	100,702,416
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Depreciation:	
At 1 January 2003	11,689,568
Provided during the year	4,742,299
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At 31 December 2003	16,431,867
	<hr/>
Net book value:	
At 31 December 2003	84,270,549
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At 31 December 2002	77,558,584
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The total interest capitalised in project costs is £5,152,976 (2002 – £5,152,976) of which £1,096,650 (2002 – £823,543) has been amortised.

9. DEBTORS

	<i>2003 £</i>	<i>2002 £</i>
Trade debtors	102,183	166,176
Other debtors	354,871	-
Accrued income	1,548,102	1,331,771
Prepayments	20,950	-
Amounts owed by fellow subsidiary	2,057,190	-
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	4,083,296	1,497,947
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Amounts owed by fellow subsidiary are unsecured and repayable on demand. Interest charged is variable, based on LIBOR, and calculated monthly.

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

10. CREDITORS: amounts falling due within one year

	2003	2002
	£	£
Amount owed to fellow subsidiary	-	1,191,416
Creditors and accrued liabilities	6,288	-
	<u>6,288</u>	<u>1,191,416</u>

Amounts owed to fellow subsidiary are unsecured and repayable on demand. Interest charged is variable, based on LIBOR, and calculated monthly.

11. CREDITORS: amounts falling after more than one year

	2003	2002
	£	£
Amounts owed to parent undertaking	<u>82,300,717</u>	<u>73,891,022</u>

Amounts owed to parent undertaking are unsecured and do not fall due for repayment in 2004. Interest charged is variable, based on LIBOR, and calculated monthly.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	2003	2002
	£	£
Deferred taxation	<u>5,768,946</u>	<u>4,462,673</u>
Analysed as:		
Accelerated capital allowances	10,420,043	9,277,292
Losses carried forward	<u>(4,651,097)</u>	<u>(4,814,619)</u>
Total deferred tax	<u>5,768,946</u>	<u>4,462,673</u>
	£	
Provision at 1 January 2003	4,462,673	
Charge for the year	<u>1,306,273</u>	
At 31 December 2003	<u>5,768,946</u>	

Independent Pipelines Limited

NOTES TO THE ACCOUNTS at 31 December 2003

13. SHARE CAPITAL

	<i>Authorised</i>		<i>Alloted, issued & fully paid</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>No.</i>	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary shares of £1 each	100	100	3	3

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share</i>	<i>Share</i>	<i>Profit and</i>	<i>Total</i>	<i>Total</i>
	<i>Capital</i>	<i>Premium</i>	<i>Loss Account</i>	<i>Shareholders'</i>	<i>Shareholders'</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>Funds</i>	<i>Funds</i>
				<i>2003</i>	<i>2002</i>
				<i>£</i>	<i>£</i>
At 1 January	3	8,427,999	(8,915,769)	(487,767)	464,402
Profit / (loss) for the year	-	-	771,083	771,083	(952,169)
At 31 December	3	8,427,999	(8,144,686)	283,316	(487,767)

15. CAPITAL COMMITMENTS

At 31 December 2003 amounts contracted but not provided in the accounts amounted to £46.6 million (2002 - £40.9 million).

16. CONTINGENT LIABILITIES

The company has entered into cross guarantees with its holding company and fellow subsidiaries, which guarantee certain of the borrowings of the holding company. As at 31 December 2003 the total borrowings amounted to £132,146,480 (2002: £115,002,713).

17. RELATED PARTIES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are part of the Inexus Group (Holdings) Limited group.

18. ULTIMATE PARENT UNDERTAKING

The company's immediate and ultimate parent undertaking is Inexus Group (Holdings) Limited a company registered in England and Wales.

Copies of the accounts of Inexus Group (Holdings) Limited can be obtained from Ocean Park House, East Tyndall Street, Cardiff, CF24 5GT.

In the view of the directors the ultimate controlling party is Star Capital Partners Limited.