

HILL HIRE PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2010
COMPANY NUMBER: 2506613

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HILL HIRE PLC
YEAR ENDED 31 DECEMBER 2010
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HILL HIRE PLC
YEAR ENDED 31 DECEMBER 2010
REPORT OF THE DIRECTORS

The Directors hereby submit their Report and the accounts for the year ended 31 December 2010

Principal activities

The principal activity of the Company is the provision of rental, finance lease and contract hire services across a range of industries. During the year the Company continued to write new business and manage the leasing transactions underwritten in previous years.

Business and performance review

The Company has had a highly successful 2010 and the Directors are expecting the right-sizing work done in the last few years will lead to a future with healthy and growing profits and return on assets.

In 2010 the Company has turned around the large losses before tax of £18,976,000 in 2009 to an almost break even position in 2010 with a loss before tax of just £301,000.

Due to the right sizing of the short term rental fleet, the Company has experienced a vast improvement in our short term rental on-hires and utilisation. This, coupled with the increasing number of trucks on contract, the writing of trailer contracts to fair market value and a reduced presence in the rental trailer market has led to an increased return on operating lease assets.

There has been a reduction in total asset value to £190,761,000 (2009 £238,807,000). This has led to lower liabilities and therefore lower interest costs. The assets sold have contributed profits reflecting the prudent residual values being applied to own risk assets.

There has been a continued focus on costs during the year and there has been a significant fall in total operating costs and administrative expenses from 2009. Administrative expenses fell by 17%.

The work done over the last few years has put Hill Hire in a strong position to take advantage of the opportunities in the market in 2011 and beyond and grow our profits and our return on assets.

Results and dividends

The results for the year are shown in the Statement of Comprehensive Income on page 8. The Directors do not recommend the payment of a dividend (2009 £nil).

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

REPORT OF THE DIRECTORS

Key performance indicators ('KPIs')

The key revenue indicators can be seen below

	2010	2009
Contract Truck numbers at end of year	2,159	1,983
Short term truck average on hires for year	1,584	1,485
Short term truck average utilisation for year	86%	67%
Short term trailer average utilisation for year	81%	61%

Also, at each monthly business meeting the Directors review management accounts and consider performance measures to assess year on year business results

These show performance against revenue, productivity, cost, cash and other business targets. The key measures include spot/contract revenue versus budget, spot on hires and rates, new contracts signed and existing contracts re-signed, truck and trailer maintenance costs per vehicle and the percentage of fleet that is available to rent. These performance measures are also used at individual rental depot level.

Employees

There has also been a continued push to communicate better with employees and share business performance wherever possible. As well as the three newsletters per annum, there are now bi-monthly reports sent to all staff from the Managing Director and monthly reports from the Operations Director. The Company has conducted a survey of all employees to take account of their views. Various committees have been set up from this and these surveys will continue to be conducted annually. One-to-one meetings with employees take place both informally and formally on a monthly basis where information and views can be exchanged and objectives set which will enable the employee to contribute towards the Company's strategic aims.

Our ultimate parent company, Lloyds Banking Group plc, belongs to the major employer groups campaigning for equality of opportunity for all members including the Employers' Forum on Disability, Employers' Forum on Age and Stonewall. The Group is also represented on the Board for Race Opportunity and the Equal Opportunities Commission. The Group's involvement with these organisations enables the identification and implementation of best practice for staff.

Future developments

The Company remains committed to the business of leasing and renting assets to third parties and will write new business in future.

Principal risks and uncertainties

The principal risks and uncertainties faced by the company are managed within the framework established across Lloyds Banking Group. These risks are discussed and minuted in monthly risk meetings and supplementary qualitative and quantitative information is provided in note 21 to the financial statements.

HILL HIRE PLC
YEAR ENDED 31 DECEMBER 2010
REPORT OF THE DIRECTORS

Going concern

As set out in the Basis of Preparation section (note 1) of the Notes to the Accounts, the Directors are satisfied that the company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

Directors

The Directors of the Company during the year to 31 December 2010 were

AJ Mitchell
A Fairbotham
D Barlow
JF Rice
J Holme
JM Morrissey (resigned 31 August 2010)
N Stead (appointed 1 September 2010)

Supplier Payment Policy

It is the Company's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the two parties. The average number of days credit taken at 31 December 2010 was 39 days (2009 40 days)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

REPORT OF THE DIRECTORS

Statement of directors' responsibilities (continued)

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.

In accordance with Section 418 of Companies Act 2006, in the case of each director in office at the date the directors' report is approved, it is confirmed that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



A J Mitchell
Director

Charterhall House
Charterhall Drive
CHESTER
CH88 3AN

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HILL HIRE PLC

We have audited the financial statements of Hill Hire plc for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

HILL HIRE PLC

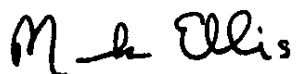
YEAR ENDED 31 DECEMBER 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HILL HIRE PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Mark Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

14th March 2011

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

STATEMENT OF COMPREHENSIVE INCOME

	Note	2010 £'000	2009 Reclassified £'000
Operating lease income	2	113,727	115,607
Operating lease costs	3	(53,900)	(55,300)
Depreciation		(45,533)	(57,850)
Gross profit		14,294	2,457
Interest income		3,212	3,829
Interest expense and similar charges	4	(6,234)	(8,808)
Net interest expense		(3,022)	(4,979)
Other operating income		270	20
Other operating expenses		(677)	(888)
Impairment of operating lease assets		292	(1,741)
Administrative expenses	5	(11,458)	(13,845)
Loss before taxation		(301)	(18,976)
Income tax (charge)/credit	8	(14,707)	5,534
Loss after tax, being total comprehensive expense		(15,008)	(13,442)

The notes on pages 12 to 31 form part of the financial statements

There are no recognised gains or losses other than those shown in the income statement

HILL HIRE PLC
AS AT 31 DECEMBER 2010
BALANCE SHEET

	Note	2010 £'000	2009 Reclassified £'000
Assets			
Property, plant and equipment	9	144,390	171,331
Finance lease receivables	10	17,618	21,305
Deferred tax assets	11	-	15,774
Total Non-Current Assets		162,008	208,410
Cash and cash equivalents	16	1,266	1,468
Finance lease receivables	10	8,057	10,056
Inventory	12	2,028	1,853
Amounts due from group undertakings	19	1,430	985
Other current assets	13	15,972	16,035
Total Current Assets		28,753	30,397
Total Assets		190,761	238,807
Liabilities			
Amounts due to group undertakings	18	82,882	69,967
Deferred tax liability	11	5,360	-
Other liabilities	14	1,550	2,451
Total Non-Current Liabilities		89,792	72,418
Amounts due to group undertakings	18	68,327	115,476
Current tax liability		4,243	8,424
Other liabilities	14	17,001	16,083
Total Current Liabilities		89,571	139,983
Total Liabilities		179,363	212,401
Equity			
Issued capital	17	3,096	3,096
Share premium	17	9,695	9,695
Retained Earnings	17	(1,393)	13,615
Total Equity		11,398	26,406
Total Equity and Liabilities		190,761	238,807

The financial statements on pages 8 to 31 were approved by the Board of Directors on 14 March 2011 and signed on its behalf by


A J Mitchell
Director

HILL HIRE PLC

AS AT 31 DECEMBER 2010

STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 31 December 2008	3,096	9,695	(37,943)	(25,152)
Loss for the year	-	-	(13,442)	(13,442)
Capital injection			65,000	65,000
At 31 December 2009	3,096	9,695	13,615	26,406
Loss for the year	-	-	(15,008)	(15,008)
At 31 December 2010	3,096	9,695	(1,393)	11,398

HILL HIRE PLC
YEAR ENDED 31 DECEMBER 2010
STATEMENT OF CASH FLOWS

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Loss before taxation		(301)	(18,976)
Adjustments for			
Interest expense	4	6,234	8,808
Impairment	9	(292)	1,741
Depreciation	9	46,275	58,752
Movement in debtors		5,742	20,161
Movement in creditors		17	(8,382)
Movement in inventory		(175)	196
Profit on sale of property, plant and equipment		(3,148)	(2,197)
Cash generated from operations		<u>54,352</u>	<u>60,103</u>
Interest paid		(7,749)	(12,575)
Income taxes received		2,246	193
Net cash from operating activities		<u>48,849</u>	<u>47,721</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(36,708)	(17,828)
Proceeds from sale of property, plant and equipment		20,821	19,474
Net cash used in investing activities		<u>(15,887)</u>	<u>1,646</u>
Cash flows from financing activities			
Repayment of net borrowings from group companies		(33,164)	(47,964)
Net cash used in financing activities		<u>(33,164)</u>	<u>(47,964)</u>
Net (decrease)/increase in cash and cash equivalents		(202)	1,403
Cash and cash equivalents at 1 January		<u>1,468</u>	<u>65</u>
Cash and cash equivalents at 31 December	16	<u>1,266</u>	<u>1,468</u>

The notes on pages 12 to 31 form part of the financial statements

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

1. Accounting Policies

Basis of preparation

Hill Hire Plc is a company incorporated and domiciled in England

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and interpretations issued by the International Reporting Interpretations Committee ('IFRIC').

The financial statements have been prepared under the historical cost basis.

The Company is reliant on funding ultimately provided by Lloyds TSB Bank plc. Notwithstanding the improvement in market liquidity during 2010, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

The following new IFRS pronouncements, where relevant to the Company, have been adopted in these financial statements:

- (i) IAS 1 (revised) 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Company has elected to present one statement, a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.
- (ii) Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements.
- (iii) Improvements to IFRSs (issued April 2009). Sets out minor amendments to IFRS standards as part of an annual improvements process. Most amendments clarified existing practice. The application of these new interpretations has not had any impact for amounts recognised in these financial statements except for the presentation of gains or losses on disposal of operating leased assets.

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

1. Accounting Policies (continued)

Details of those pronouncements which will be relevant to the Company, but which were not effective at 31 December 2010 and which have not been applied in preparing these financial statements are given in note 22

Financial assets and liabilities

Financial assets comprise cash and cash equivalents, finance lease receivables, amounts due from group undertakings and other current assets. Financial liabilities comprise amounts due to group undertakings and other liabilities.

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cashflows, or obligations to pay cashflows, have expired.

Finance and operating leases

Assets leased to customers that transfer substantially all the risks and rewards incidental to ownership to the customer are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any provisions for impairment, within finance lease receivables.

All other assets leased to customers that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. These assets, less any provision for impairment, are separately disclosed in the balance sheet within property, plant and equipment and are recorded at cost less accumulated depreciation.

Finance and operating lease assets are regularly reviewed for impairment.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income and expense recognition

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease and hire purchase receivable thus reducing the amount of income recognised over the lease term.

When calculating the net investment, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, such as acceptance fees and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Operating lease rentals are recognised within operating income on a straight line basis over the lease term. The element of rentals relating to vehicle maintenance is recognised on a basis that reflects the profile of the related maintenance costs incurred by the company. Deferred maintenance income is held within other liabilities.

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

1. Accounting Policies (continued)

Proceeds from the sale of operating lease assets are included within operating lease income with the related costs being recorded within operating lease costs.

Depreciation is calculated using a straight line method to allocate the difference between the cost and expected residual value over the period of the lease. Future rates of depreciation are re-assessed each year in light of changes to anticipated residual values, and are amended as required.

Interest income and expense are recognised in the statement of comprehensive income for all other interest-bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Fixed assets and depreciation

Property, plant and equipment is recorded at cost less depreciation and any impairment. Depreciation is calculated using the straight-line method to allocate the difference between the cost and expected residual value over the assets' estimated useful lives, as follows:

Class	Description	Rate
Land & Buildings	Freehold buildings	2% straight line
Plant & Equipment	Computers	25% straight line
Plant & Equipment	Fixtures & fittings	15% straight line
Plant & Equipment	Motor vehicles	25% straight line
Plant & Equipment	Plant & machinery	25% straight line
Operating Lease Assets	Operating lease trailers	12-20% straight line
Operating Lease Assets	Operating lease trucks	20-33% straight line

The value of land is not depreciated.

Impairment provisions

The carrying amounts of the Company's operating and finance lease assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Impairment is assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant.

Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after a principal payment is missed.

The recoverable amount of finance lease receivables is calculated as the present value of future cash flows, discounted at the original effective interest rate in the lease.

The recoverable amount of operating leases is the greater of their net selling price and value.

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

1. Accounting Policies (continued)

in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

If an asset's recoverable amount is less than carrying value an impairment allowance is created for the difference resulting in a charge to the statement of comprehensive income

Collective assessment groups assets that share similar risk characteristics and applies a collective impairment methodology based on existing risk conditions or events that have a strong correlation with a tendency to default

The reversal of an impairment loss for an asset is recognised immediately in the statement of comprehensive income

Impairment loss calculations involve the estimation of future cash flows based on observable data at the balance sheet date The company takes account of a number of relevant considerations including historical experience, future prospects of the customer, value of collateral held and reliability of information Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Tax assets and liabilities are offset where they arise in the same tax reporting group and where there is both a legal right of offset and the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously

Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits at bank held at call or within three months notice or less and bank overdrafts

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

1. Accounting Policies (continued)

Inventory

Inventory consists of fuel, tyres and other consumables and is held at the lower of cost and net realisable value

Critical accounting estimates and judgements in applying accounting policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key areas of judgement relate to impairment and residual value estimates as detailed above.

2. Operating lease income

	2010	2009
	£'000	Reclassified £'000
Operating lease income	93,580	96,206
Proceeds from sale of operating lease assets	20,147	19,401
	<u>113,727</u>	<u>115,607</u>

In respect of the prior year, there has been a reclassification of £2,000,000 from other operating income to operating lease income. Operating lease income and operating lease costs have also been grossed up by £1,500,000 to reflect the net book value associated with the assets disposed of in the routine course of business.

3. Operating lease costs

	2010	2009
	£'000	Reclassified £'000
Fleet maintenance	32,675	33,766
Road fund tax	2,173	2,162
Fuel and delivery	1,088	1,617
Net book value of operating lease assets sold	17,269	17,225
Other	695	530
	<u>53,900</u>	<u>55,300</u>

In respect of the prior year, as referred to in note 2, operating lease income and operating lease costs have been grossed up by £1,500,000 to reflect the net book value associated with the assets disposed of in the routine course of business.

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

4. Interest expense and similar charges

	2010 £'000	2009 £'000
Intra group interest	<u>6,234</u>	<u>8,808</u>

5. Administrative expenses

	2010 £'000	2009 £'000
Staff related expenses	6,041	8,044
Property related expenses	2,676	2,633
Plant and equipment depreciation	582	739
Insurance	722	696
Other expenses	<u>1,437</u>	<u>1,733</u>
	<u>11,458</u>	<u>13,845</u>

Fees payable to the Company's auditors for the audit of the financial statements of £50,000 (2009 £49,000) have been borne by the immediate parent undertaking, Bank of Scotland plc

6. Staff numbers and costs

The average number of persons employed by the Company was as follows

Number of employees

	2010 Number	2009 Number
	<u>302</u>	<u>390</u>

The aggregate payroll costs of these persons were as follows

	£'000	£'000
Wages and salaries	9,363	12,359
Social security costs	1,075	1,347
Other pension costs	<u>96</u>	<u>105</u>
	<u>10,534</u>	<u>13,811</u>

Other pension costs comprise amounts paid by the company into a money purchase scheme for employees and directors. There were no prepaid or accrued amounts at 31 December 2010 (2009 £nil)

Staff costs are included within both administrative expenses (note 5) and fleet maintenance costs within operating lease costs (note 3)

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

7. Directors' emoluments

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Directors emoluments	661	605
Company contributions to money purchase pension schemes	32	32
Charge from immediate parent for contribution to final salary pension scheme	40	38
	<u>733</u>	<u>675</u>

The aggregate emoluments of the highest paid Director were £226,000 (2009 £202,000), and Company pension contributions of £40,000 (2009 £38,000), were made to a final salary scheme on his behalf

One director is accruing pensions under a defined benefit scheme (2009 1)

8. Income tax charge/(credit)

	2010 £'000	2009 £'000
Current tax		
Corporation tax charge for the year	4,243	13,260
Corporation tax credit in respect of earlier years	(10,670)	(159)
	<u>(6,427)</u>	<u>13,101</u>
Deferred tax (note 11)		
Deferred tax credit for the year	(4,516)	(18,493)
Deferred tax charge/(credit) in respect of earlier years	25,650	(142)
	<u>21,134</u>	<u>(18,635)</u>
Total income tax charge/(credit) in income statement	<u>14,707</u>	<u>(5,534)</u>

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

Reconciliation of effective tax rate

The tax assessed for the year is higher (2009 higher) than the effective rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Loss on ordinary activities before taxation	<u>(301)</u>	<u>(18,976)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(84)	(5,313)
Effects of		
Expenses not deductible for corporation tax purposes	10	80
Adjustments to tax in respect of previous periods	14,980	(301)
Impact of future change in rate of corporation tax (see note 11)	(199)	-
Total tax charge/(credit) for the year	<u>14,707</u>	<u>(5,534)</u>
Effective rate	<u>(4,886%)</u>	<u>29.16%</u>

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

9. Property, plant and equipment

	Land & Buildings £'000	Plant and Equipment £'000	Operating Lease Assets £'000	Total £'000
Cost				
Balance at 1 January 2010	14,575	7,381	383,753	405,709
Additions	42	220	36,446	36,708
Disposals	(448)	(209)	(81,530)	(82,187)
At 31 December 2010	14,169	7,392	338,669	360,230
Depreciation and impairment losses				
Balance at 1 January 2010	2,994	5,878	225,506	234,378
Depreciation charge for the year	157	585	45,533	46,275
Impairment			(292)	(292)
Disposals	(55)	(198)	(64,268)	(64,521)
At 31 December 2010	3,096	6,265	206,479	215,840
Carrying amounts				
At 31 December 2009	11,581	1,503	158,247	171,331
At 31 December 2010	11,073	1,127	132,190	144,390

Rentals on operating lease contracts with a contingent element are £7,328,000 (2009 £8,068,000)

The Company leases a portfolio of commercial vehicles & commercial equipment to private companies under operating leases for varying lengths from short term periods of 1 day up to periods of 9 years

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NOTES TO THE ACCOUNTS

10. Finance lease receivables

	2010 £'000	2009 £'000
Gross investment in finance leases, receivable		
No later than one year	10,445	12,999
Later than 1 year and no later than 5 years	19,619	23,783
Later than 5 years	72	29
	<u>30,136</u>	<u>36,811</u>
Unearned future finance income on finance leases	(4,461)	(5,450)
Finance lease receivables	<u>25,675</u>	<u>31,361</u>

The net investment in finance leases may be analysed as follows

	2010 £'000	2009 £'000
No later than one year	8,057	10,056
Later than 1 year and no later than 5 years	17,546	21,277
Later than 5 years	72	28
Net investment in finance leases	<u>25,675</u>	<u>31,361</u>

Rentals on finance lease contracts with a contingent element are £2,643,000 (2009 £1,164,000)

The company provides a range of finance lease options in connection with the financing of trucks and trailers. The leases run for periods of up to 7 years and include a guaranteed buy back with the suppliers.

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NOTES TO THE ACCOUNTS

11. Deferred tax asset and liability

	2010 £'000	2009 £'000
Deferred tax liability	5,379	-
Deferred tax asset	(19)	(15,774)
Net position	<u>5,360</u>	<u>(15,774)</u>

The movement for the year in the Company's net deferred tax position was as follows

	2010 £'000	2009 £'000
At 1 January	(15,774)	2,861
Charge/(credit) to income for the year (note 8)	21,134	(18,635)
Balance carried forward as at 31 December	<u>5,360</u>	<u>(15,774)</u>

Deferred tax liability

Capital
allowances on
assets leased to
customers
£'000

At 1 January 2010	-
Charge to income for the year	5,360
Balance carried forward as at 31 December 2010	<u>5,360</u>

Deferred tax asset	Capital Allowances on assets leased to customers £'000	Other £'000	Total £'000
At 1 January 2010	(15,750)	(24)	(15,774)
Charge to income for the year	21,129	5	21,134
Balance carried forward as at 31 December 2010	<u>5,379</u>	<u>(19)</u>	<u>5,360</u>

Finance (No 2) Act 2010 which was substantively enacted on 20 July 2010 proposed a reduction to the main rate of corporation tax from 28% to 27%. Accordingly the deferred tax liability has been recognised at 27%

HILL HIRE PLC
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NOTES TO THE ACCOUNTS

12. Inventory

	2010 £'000	2009 £'000
Fuel and consumables	<u>2,028</u>	<u>1,853</u>

13. Other current assets

	2010 £'000	2009 £'000
Trade debtors	11,968	11,192
Other assets	4,004	4,843
	<u>15,972</u>	<u>16,035</u>

Trade debtors are stated net of impairment allowances of £998,000 (2009 £771,000)

14. Other liabilities

	2010 £'000	2009 £'000
Current		
Trade creditors	2,882	2,277
Taxation and social security	1,671	1,923
Customer payments in advance	1,551	546
Deferred income	6,309	7,406
Other creditors	4,588	3,931
	<u>17,001</u>	<u>16,083</u>
Non Current		
Customer payments in advance	1,363	2,351
Other creditors	187	100
	<u>1,550</u>	<u>2,451</u>
	<u>18,551</u>	<u>18,534</u>

15. Operating lease minimum lease receipts

The future minimum rentals receivable under non cancellable operating leases are as follows

	2010 £'000	2009 £'000
Less than one year	31,907	34,831
Between one and five years	32,435	46,413
More than five years	530	1,956
	<u>64,872</u>	<u>83,200</u>

HILL HIRE PLC
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NOTES TO THE ACCOUNTS

16. Cash, cash equivalents and bank

	2010 £'000	2009 £'000
Cash and cash equivalents in the statement of cash flows	<u>1,266</u>	<u>1,468</u>

17. Capital and reserves

Share Capital	2010 £'000	2009 £'000
Authorised		
38,450,000 Ordinary shares of £0 10 each	<u>3,845</u>	<u>3,845</u>
Allotted, called up and fully paid		
30,096,000 Ordinary shares of £0 10 each	<u>3,096</u>	<u>3,096</u>

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 31 December 2008	3,096	9,695	(37,943)	(25,152)
Loss for the year	-	-	(13,442)	(13,442)
Capital injection			65,000	65,000
At 31 December 2009	3,096	9,695	13,615	26,406
Loss for the year	-	-	(15,008)	(15,008)
At 31 December 2010	<u>3,096</u>	<u>9,695</u>	<u>(1,393)</u>	<u>11,398</u>

Note, that in the prior year, equity included a capital reserve of £65,000,000, with retained losses of £51,385,000. This is because, on 25 June 2009 the immediate parent company, Bank of Scotland plc, agreed to waive debt due from the company to the value of £65,000,000. The waiver was accounted for as distributable capital contribution resulting in an increase in the distributable reserves of the company by £65,000,000. The company has shown these as a net amount in the current year as both are distributable reserves.

HILL HIRE PLC

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NOTES TO THE ACCOUNTS

18. Amounts due to group undertakings

	2010 £'000	2009 £'000
Non-current liabilities		
Amounts due to group undertakings	<u>82,882</u>	<u>69,967</u>
Current liabilities		
Amounts due to group undertakings	<u>68,327</u>	<u>115,476</u>
On Demand	37,862	32,143
Within one year	30,465	83,333
Between one and five years	82,882	69,967
	<u>151,209</u>	<u>185,443</u>

Of the above amounts, £37,862,000 (2009 £32,143,000) is repayable on demand £25,500,000 (2009 £19,700,000) bears a variable interest charge of 0.15% above base rate. The remaining amount repayable on demand is non-interest bearing. The remaining £113,347,000 (2009 £153,300,000) is repayable over the next 5 years in line with the HBOS Treasury loans terms as follows

Date	2010 Fixed rate	2010 £'000	2009 £'000
Repayable during 2010			83,333
Repayable during 2011	2.78	30,465	13,300
Repayable during 2012	4.68	63,612	56,667
Repayable during 2013	3.05	5,650	-
Repayable during 2014	3.78	7,470	-
Repayable during 2015	4.24	6,150	-

HILL HIRE PLC

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NOTES TO THE ACCOUNTS

19. Related parties

Key management personnel, being the directors and senior management, and members of their close families have not undertaken any transactions with Hill Hire plc

The Company had the following reportable transactions with its parent There were no reportable transactions with subsidiaries or other related parties

Income Statement		Description	2010 £'000	2009 £'000
Interest expense & similar charges	Intragroup interest (note 4)		6,234	8,808
Administrative expenses due to fellow group undertakings	Mgmt charge, rent, rates, telephone charges & car hire		2,010	1,561
Balance Sheet		Description		
Non-current liabilities	Amounts due to group undertakings (note 18)		82,882	69,967
Current liabilities	Amounts due to group undertakings (note 18)		68,327	115,476
Current assets	Bank balance (note 16)		1,260	1,461
Current assets	Amounts due from group undertakings		1,430	985

20. Parent undertaking

The Company's immediate parent company is Bank of Scotland plc The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

HILL HIRE PLC

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NOTES TO THE ACCOUNTS

21. Financial Instruments

(a) Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from leasing activities. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers.

The table below sets out the maximum exposure to credit risk at the balance sheet date

	2010 £'000	2009 £'000
Finance lease receivables (note 10)	25,675	31,361
Trade debtors (note 13)	12,966	11,963
	<u>38,641</u>	<u>43,324</u>

Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired

The maximum exposure to credit risk relating to finance lease receivables is shown above. All receivables are neither past due nor impaired and of good or satisfactory quality.

Collateral held against receivables is comprised of trucks and trailers. Due to the nature and volume of the assets held as collateral it is impractical to estimate the fair value of all collateral held at the year end in respect of finance lease receivables and trade debtors. During the year the company repossessed collateral of £552,000 in respect of defaulted debt (2009 £1,378,000).

The tables below set out the impairment information and internal credit ratings in respect of rentals receivable (shown as trade debtors above). The exposure is UK based spanning many industrial sectors, with the predominant concentration within the property, transport and communication sectors.

Trade receivables, maximum exposure

	2010 £'000	2009 £'000
Neither past due nor impaired	10,665	10,217
Past due but not impaired	641	733
Impaired	1,660	1,013
	<u>12,966</u>	<u>11,963</u>

Amounts stated above are gross of impairment provisions of £998,000 (2009 £771,000)

Trade receivables which are neither past due nor impaired

	2010 £'000	2009 £'000
Good quality	5,657	5,048
Satisfactory quality	3,768	3,534
Lower quality	1,062	1,348
Below standard, but not impaired	178	287
	<u>10,665</u>	<u>10,217</u>

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

21. Financial Instruments (continued)

(a) Credit risk (continued)

Trade receivables which are past due but not impaired

	2010	2009
	£'000	£'000
Past due up to 30 days	504	600
Past due from 30-60 days	110	63
Past due more than 60 days	27	70
	<u>641</u>	<u>733</u>

Past due is defined as a failure to make a payment when it falls due

Allowance for trade receivables which are impaired

	2010	2009
	£'000	£'000
Brought forward at 1 January	771	761
Advances written off	(327)	(334)
Charge for year (including recoveries)	683	549
Recoveries of prior advances written off	(129)	(205)
At 31 December	<u>998</u>	<u>771</u>

During the year the Company did not renegotiate any trade receivables to customers which would otherwise have been past due or impaired (2009 £nil)

(b) Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as

- Interest rates (interest rate risk)
- Foreign exchange rates (foreign exchange risk)

Interest rate risk

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times. The Company has fixed rate agreements with customers where the customer is committed to pay interest at a fixed rate for the term of the agreement.

The Company is exposed to interest rate risk in relation to fixed rate agreements. However, this is managed at the intermediate parent Company level where exposures are hedged.

Interest rate exposure is concentrated entirely within the UK money markets. The principal internal control metric is the Net Interest Income (NII) sensitivity which measures how much of the current projection for the next 12 months' NII would alter if different assumptions are made about the future levels of interest rates.

The table below sets out the sensitivity of the Company's net interest income (NII) over a 12 month period to an immediate up and down 100 basis points change to all interest rates as at the balance sheet date.

	2010	2009
	£000	£000
Impact of +100 bps shift	538	119
Impact of – 100 bps shift	(538)	(119)

HILL HIRE PLC

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NOTES TO THE ACCOUNTS

21. Financial Instruments (continued)

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount. Also, it does not recognise the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on NII.

Foreign exchange risk

The Company does not have any exposure to foreign exchange risk as all assets and liabilities are denominated in Sterling.

(c) Liquidity Risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities. The Company's short term liquidity requirements are supported by a facility with another Lloyds Banking Group Company subject to internal limits. Overall liquidity of the Lloyds Banking Group is managed centrally.

The table below sets out the cash flows payable by the Company in respect of financial liabilities, by remaining contractual undiscounted repayments of principal and interest at the balance sheet date. Please note that the other liabilities figures differ from the balance sheet by the deferred income figure of £6,309,000 (2009 £7,406,000).

As at 31 December 2010

	Up to 1 month £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Over 5 yrs £000	Total £000
Amounts due to group undertakings	41,539	701	30,057	85,771	-	158,068
Other liabilities	6,342	1,720	2,630	1,524	26	12,242
Total	47,881	2,421	32,687	87,295	26	170,310

As at 31 December 2009

	Up to 1 month £000	1-3 mths £000	3-12 mths £000	1-5 yrs £000	Over 5 yrs £000	Total £000
Amounts due to group undertakings	32,701	4,396	84,191	73,943	-	195,231
Other liabilities	4,412	3,746	519	2,372	79	11,128
Total	37,113	8,142	84,710	76,315	79	206,359

(d) Fair values

All financial assets and liabilities are reported on an amortised cost basis and there is considered to be no material difference between the balance sheet carrying amount and fair value.

HILL HIRE PLC

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NOTES TO THE ACCOUNTS

21. Financial Instruments (continued)

(e) Residual value risk

The leasing portfolio includes agreements where the company has a risk in respect of residual value of the assets. This area of credit policy is monitored by senior management on an ongoing basis where they consider the exposure taking into account current and projected industry trends in addition to the company's own risk management data. This is also covered by the risk committee which meets on a monthly basis.

22. Future Developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2010)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2011
IFRS 9 Financial Instruments Classification and Measurement ¹	Simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost. The existing available for sale and held-to-maturity categories have been eliminated. Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows.	Annual periods beginning on or after 1 January 2013
IAS 24 Related Party Disclosures	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

¹ - At the date of this report this pronouncement is awaiting EU endorsement

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements.

HILL HIRE PLC

YEAR ENDED 31 DECEMBER 2010

NOTES TO THE ACCOUNTS

23. Capital commitments

The Company has contracted capital commitments of £37,000,000 (2009 £26,000,000) at the year end in respect of the purchase of fleet assets which the ultimate parent company, Lloyds Banking Group plc has committed to funding

24. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally