

HILL & SMITH (AMERICAS) LIMITED

Registered number 07269581

Annual Report and Financial Statements
For the year ended 31 December 2020



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Strategic report

The Directors present their Annual Report and Financial Statements of Hill & Smith (Americas) Limited ('the Company') for the year ended 31 December 2020.

Principal activity and Business Review

The principal activity of the Company is that of an intermediate holding company. Its results for the year are set out in the profit and loss account on page 8. The Directors do not anticipate any change in the Company's principal activity of an intermediate holding company.

The financial performance and position of the company are in line with the directors' expectations. The Hill & Smith Holdings PLC group ('the Group') does not monitor risks and uncertainties or KPIs at the company level for intermediate holding companies. These are, instead, monitored at a Group level. These are included in the Consolidated Financial Statements of Hill & Smith Holdings PLC which are available to the public and may be obtained from the address detailed in note 17.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006 ("the Act")

The Company is part of the Hill & Smith Holdings PLC group and is therefore required to produce a Section 172 statement.

The Section 172 statement for Hill & Smith Holdings PLC, which this statement underpins, can be found on page 55 of its 2020 Annual Report.

The Board of the Company considers that it is suitably composed, with an appropriate range of pertinent skills and experience and the directors consider that they have acted, both individually and together, in good faith and in ways which would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to stakeholders and matters set out in s172 (1) (a-f) of the Act.

The Board's policies, systems and procedures mirror those of the ultimate parent company and its values are therefore in support of its ultimate parent company's strategic objectives. Further details on this can be found on page 9 of the 2020 Annual Report of Hill & Smith Holdings PLC.

During the course of the year and in support of the ultimate parent company and their strategic objectives, the Company paid dividends to its immediate parent totalling \$43,000,000.

By order of the Board



C A Henderson
Secretary

Westhaven House
Arleston Way
Shirley
Solihull
B90 4LH

24 June 2021

Directors' Report

The Directors present their Report and Financial Statements for the year ended 31 December 2020.

Dividends

Dividends of \$27,055,000 were received during the year (2019: \$376,170,000). Dividends of \$43,000,000 were paid during the year (2019: \$17,000,000).

Directors

The Directors serving during the year and in the period up to the date of this Report were as follows:

P Simmons (appointed 12 November 2020)
H K Nichols (appointed 1 January 2020)
J P Whitehouse
C A Henderson
D W Muir (resigned 12 November 2020)

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company is an intermediate holding company in the Group. The Company is a party to cross guarantees given for loans and borrowings of the ultimate parent company, Hill & Smith Holdings PLC, and certain fellow subsidiaries as detailed in note 14. As a result, the Company's funding requirements are directly linked to the Group's overall financial position.

At 31 December 2020, the Group had £328.3m of committed borrowing facilities, of which only £1.2m matures before December 2023 at the earliest, and a further £13.8m of on-demand facilities. The amount drawn down under these facilities at 31 December 2020 was £139.0m, which together with cash and cash equivalents of £22.0m gave total headroom of £225.1m (£212.9m committed, £12.2m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2020 and the date of approval of these financial statements, and there have been no significant changes to liquidity headroom during that period. At 30 April 2021, the Group's net debt was £162.5m (December 2020: £146.2m). The £16.3m net debt increase during the period includes cash outflows of £7.3m for the FY2020 interim dividend and £12.0m relating to the acquisition of a fellow subsidiary, Prolectric Services Limited.

The Group's principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2020 was 1.3 times and interest cover was 17.0 times.

In assessing whether these financial statements should be prepared on a going concern basis, the Directors have prepared cash flow forecasts for the Company through until 30 June 2022. The Group have aggregated the cash flow forecasts of the Group's subsidiaries to form a Group 'base case' scenario. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2021, 31 December 2021 and 30 June 2022.

Directors' Report (continued)

Going concern (continued)

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil during the period to June 2022. The Group consider there are no reasonably plausible scenarios that would result in a breach of covenants or a reduction of headroom against its borrowings facilities to nil during this period given the ability of the Group to continue its operations throughout the COVID-19 pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period), its ability to return to more normalised activity levels during the second half of 2020 and 2021 to date, and the positive future outlook across the infrastructure markets in which it operates. The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits. Further details are provided in the Group's 2020 annual report which can be obtained from the address in note 17.

As a result of the above, the Company's ultimate parent, Hill & Smith Holdings PLC, have provided a letter of support to confirm their intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The Directors have assessed the ultimate parent company's ability to provide such support through obtaining the latest consolidated financial statements of the Group, discussing the financial position with group management and assessing the level of funds available to the Group. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Employees

The Company had no employees in either the current or preceding year.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Financial risk

The financial risk management objectives and policies are managed by the directors of Hill & Smith Holdings PLC on a Group basis. From the perspective of the Company, the financial risks are integrated within the financial risks of the Group and are not managed separately. Accordingly, the financial risks of the Group, which include those of the Company, are discussed within the financial risk management section of the Group's Annual Report which does not form part of this Annual Report. Details on how to obtain a copy of the Group's Annual Report are included in note 17.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Other matters

In accordance with section 414C(11) of the Companies Act 2006, certain information, including future business developments, are not presented in the Directors' Report because it is disclosed in the Strategic Report.

By order of the Board



C A Henderson
Secretary

24 June 2021

Westhaven House
Arleston Way
Shirley
Solihull
West Midlands
B90 4LH

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Hill & Smith (Americas) Limited

Opinion

We have audited the financial statements of Hill & Smith (Americas) Limited for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue through to 30 June 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the members of Hill & Smith (Americas) Limited (continued)

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, as set out on page 4, 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.

Independent Auditor's Report to the members of Hill & Smith (Americas) Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant to be those relating to the United Kingdom General Accepted Accounting Practice, the Companies Act 2006, and United Kingdom direct and indirect tax regulations. The company has minimal transactions, and no employees.
- We understood how the company is complying with those frameworks by making enquiries of senior finance personnel and those charged with governance and gaining an understanding of the entity level controls of the company in respect of these areas and the controls in place to reduce opportunity for fraudulent transactions.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by discussing with senior finance personnel and those charged with governance as to the rationale behind the specific accounting transactions. Each financial transaction in the year was verified through recalculation or agreement to supporting source documentation. Due to the nature of the company, as a holding company of wholly owned group subsidiaries we have not identified any risk of material misstatement.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures included reading board meeting minutes and relevant approval documents, enquiries of senior finance personnel and those charged with governance and agreement of transactions to supporting source documentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

Ernst & Young LLP

Stephen Kirk (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: 28th June 2021

Profit and Loss Account
for the year ended 31 December 2020

	<i>Note</i>	2020 \$000	2019 \$000
Administrative expenses		50	(362,603)
Operating profit before impairment of investments		50	67
Impairment of investments	3	-	(362,670)
Operating profit / (loss)		50	(362,603)
Income from shares in subsidiary undertakings		27,505	376,170
Profit before interest and taxation		27,555	13,567
Interest receivable	5	6,201	6,496
Interest payable and similar charges	6	(3,153)	(3,641)
Profit before taxation	3	30,603	16,422
Taxation on profit	7	(2,622)	598
Profit for the financial year		27,981	17,020

Statement of Comprehensive Income

Items that may be reclassified subsequently to profit or loss:

Taxation on other comprehensive income	-	-
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	27,981	17,020

All operations are continuing.

The notes on pages 11 to 21 form part of the Financial Statements.

Balance Sheet
as at 31 December 2020

	Note	2020 \$000	2019 \$000
Fixed assets			
Investments	8	308,103	308,103
Current assets			
Debtors (including \$nil (2019: \$92,000,000) due after more than one year)	9	88,000	104,576
Cash at bank and in hand		-	-
		<u>88,000</u>	<u>104,576</u>
Creditors: Amounts falling due within one year	10	<u>(14,804)</u>	<u>(6,667)</u>
Net current assets		<u>73,196</u>	<u>97,909</u>
Total assets less current liabilities		<u>381,299</u>	<u>406,012</u>
Creditors: Amounts falling due after more than one year	11	<u>(68,789)</u>	<u>(78,479)</u>
Deferred tax	12	<u>(142)</u>	<u>(146)</u>
Net assets		<u>312,368</u>	<u>327,387</u>
Capital and reserves			
Called up share capital	13	20,001	20,001
Share premium account		269,086	269,086
Profit and loss account		23,281	38,300
Shareholder's funds		<u>312,368</u>	<u>327,387</u>

The notes on pages 11 to 21 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf by:



H K Nichols
Director
24 June 2021

Company No. 07269581

Statement of Changes in Equity
for the year ended 31 December 2020

	Called up share capital \$000	Share premium account \$000	Profit and loss account \$000	Total Shareholder's funds \$000
Balance at 1 January 2019	12,787	137,209	38,280	188,276
Comprehensive income				
Profit for the year	-	-	17,020	17,020
Other comprehensive income for the year	-	-	-	-
Transactions with owners recognised directly in equity				
Dividends	-	-	(17,000)	(17,000)
Issue of share capital	7,214	131,877	-	139,091
At 31 December 2019	20,001	269,086	38,300	327,387
Comprehensive income				
Profit for the year	-	-	27,981	27,981
Other comprehensive income for the year	-	-	-	-
Transactions with owners recognised directly in equity				
Dividends	-	-	(43,000)	(43,000)
At 31 December 2020	20,001	269,086	23,281	312,368

The share premium account represents the amount of proceeds received for shares in excess of their nominal value of \$1 per share.

Profit and loss account reserve represents accumulated retained earnings.

Notes to the financial statements

1 General Information

The Company is a private company limited by shares and incorporated and domiciled in England, United Kingdom. The registered office is Westhaven House, Arlestone Way, Shirley, Solihull, B90 4LH.

2 Accounting policies

The following accounting policies have been applied consistently in the current and prior period in dealing with items which are considered material in relation to the Company's Financial Statements.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The presentational and functional currency of these financial statements is US dollars.

The Company's ultimate parent undertaking, Hill & Smith Holdings PLC includes the Company in its Consolidated Financial Statements. The Consolidated Financial Statements of Hill & Smith Holdings PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Group Headquarters (see note 17).

Significant accounting estimates or judgements

In the application of the Company's accounting policies outlined below, the directors are required to make estimates, assumptions and judgements about the carrying value of assets and liabilities that are not readily apparent.

The key accounting estimates or judgements made were:

Investment recoverability (Note 8)

The determination of whether investments should be impaired requires, amongst other factors, the estimation of future cash flows and growth factors adopted for each investment to which the Company holds. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each investment. No impairment has been identified in the current year (2019: \$362,670,000).

New IFRS standards and interpretations adopted during 2020

In 2020 the following amendments had been endorsed by the EU, became effective and therefore were adopted by the Company:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

The amendments noted above have not had a material impact on the financial statements.

Exemptions

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Exemptions *(continued)*

As the Consolidated Financial Statements of Hill & Smith Holdings PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Measurement convention

The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company is an intermediate holding company in the Group. The Company is a party to cross guarantees given for loans and borrowings of the ultimate parent company, Hill & Smith Holdings PLC, and certain fellow subsidiaries as detailed in note 14. As a result, the Company's funding requirements are directly linked to the Group's overall financial position.

At 31 December 2020, the Group had £328.3m of committed borrowing facilities, of which only £1.2m matures before December 2023 at the earliest, and a further £13.8m of on-demand facilities. The amount drawn down under these facilities at 31 December 2020 was £139.0m, which together with cash and cash equivalents of £22.0m gave total headroom of £225.1m (£212.9m committed, £12.2m on demand). The Group has not made any changes to its principal borrowing facilities between 31 December 2020 and the date of approval of these financial statements, and there have been no significant changes to liquidity headroom during that period. At 30 April 2021, the Group's net debt was £162.5m (December 2020: £146.2m). The £16.3m net debt increase during the period includes cash outflows of £7.3m for the FY2020 interim dividend and £12.0m relating to the acquisition of a fellow subsidiary, Prolectric Services Limited.

The Group's principal borrowing facilities are subject to covenants that are measured biannually in June and December, being net debt to EBITDA of a maximum of 3.0x and interest cover of a minimum of 4.0x, based on measures as defined in the facilities agreements which are adjusted from the equivalent IFRS amounts. The ratio of net debt to EBITDA at 31 December 2020 was 1.3 times and interest cover was 17.0 times.

In assessing whether these financial statements should be prepared on a going concern basis, the Directors have prepared cash flow forecasts for the Company through until 30 June 2022. The Group have aggregated the cash flow forecasts of the Group's subsidiaries to form a Group 'base case' scenario. In this 'base case' scenario, the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and financial covenants will be met throughout the period, including the covenant tests at 30 June 2021, 31 December 2021 and 30 June 2022.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Going concern (continued)

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to nil during the period to June 2022. The Group consider there are no reasonably plausible scenarios that would result in a breach of covenants or a reduction of headroom against its borrowings facilities to nil during this period given the ability of the Group to continue its operations throughout the COVID-19 pandemic (noting that revenues fell by only 22% in the second quarter of 2020, the worst-affected period), its ability to return to more normalised activity levels during the second half of 2020 and 2021 to date, and the positive future outlook across the infrastructure markets in which it operates. The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, although not forecast to be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits. Further details are provided in the Group's 2020 annual report which can be obtained from the address in note 17.

As a result of the above, the Company's ultimate parent, Hill & Smith Holdings PLC, have provided a letter of support to confirm their intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. The Directors have assessed the ultimate parent company's ability to provide such support through obtaining the latest consolidated financial statements of the Group, discussing the financial position with group management and assessing the level of funds available to the Group. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Consolidation

In accordance with Section 400 of the Companies Act 2006, consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Hill & Smith Holdings PLC, a company incorporated in England, which has prepared Consolidated Financial Statements to include the results of the Company.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less amounts written off for impairment. Investments are reviewed for impairment where events or circumstances indicate that their carrying value may not be recoverable.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Dividends

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders. Dividend income is recognised in the Profit and Loss account on the date the entity's right to receive payment is established.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities, interest expense on lease liabilities, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Profit and Loss Account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

3 Profit before taxation

	2020 \$000	2019 \$000
Profit before taxation is stated		
<i>after crediting:</i>		
Foreign exchange gain	50	67
	<hr/>	<hr/>

Fees paid to Ernst & Young LLP and its associates for non-audit services to the company itself are not disclosed because Hill & Smith Holdings PLC Group accounts are required to disclose such fees on a consolidated basis. The audit fees attributable to the Company for the years ended 31 December 2020 and 31 December 2019 are incidental to the Company and were borne by Hill & Smith Holdings PLC.

During the prior year, the Group undertook an internal corporate restructuring project impacting the Company. As a result, an investment impairment charge of \$362,670,000 was recognised.

Notes to the financial statements *(continued)*

4 Directors and employees

The Company had no employees during either the current or prior year and, as such, the aggregate payroll costs in both periods were \$nil. The remuneration of the Directors are paid by another Hill & Smith Holdings PLC group company as their services to the Company are incidental to their services provided to other Hill & Smith Holdings PLC group companies.

5 Interest receivable and similar income

	2020 \$000	2019 \$000
On loans to group undertakings	6,201	6,496
	<u>6,201</u>	<u>6,496</u>

6 Interest payable and similar charges

	2020 \$000	2019 \$000
On bank loans and overdrafts	2,863	3,317
Amortisation of financing arrangement costs	248	324
On loans from group undertakings	42	-
	<u>3,153</u>	<u>3,641</u>

7 Taxation on profit

Analysis of charge / (credit) in the year

	2020 \$000	2019 \$000
<i>UK corporation tax</i>		
Current tax for the year	2,402	(582)
Relating to the prior year	224	2
	<u>2,626</u>	<u>(580)</u>
Current tax charge / (credit)		
<i>Deferred tax (note 12)</i>		
Current year credit	(21)	(18)
Effect of change in tax rate	17	-
	<u>(4)</u>	<u>(18)</u>
Deferred tax credit		
Total tax charge / (credit)	<u>2,622</u>	<u>(598)</u>

Notes to the financial statements (continued)

7 Taxation on profit (continued)

Factors affecting tax charge / (credit) for the year

The effective current tax rate for the year is lower (2019: lower) than the standard rate of corporation tax in the UK.

The differences are explained below:

	2020 \$000	2019 \$000
<i>Total tax reconciliation</i>		
Profit before taxation	30,603	16,422
	<hr/>	<hr/>
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2019: 19%)	5,815	3,120
Difference between current and deferred tax rates	-	2
Impact of deferred tax rate change	17	-
Non-taxable dividend income	(5,226)	(71,472)
Impairment of investments	-	68,908
Transfer pricing compensating adjustment	-	(1,135)
Charge from international financing arrangements	1,650	-
Foreign exchange loss / (gain) on tax charge	142	(23)
Relating to the prior year	224	2
	<hr/>	<hr/>
Total tax charge / (credit)	2,622	(598)
	<hr/>	<hr/>

The UK Finance Act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the tax rate reduction to 17% would not occur and the UK corporation tax rate would instead remain at 19%. As the 19% rate was substantively enacted by the balance sheet date, deferred tax balances relating to the UK have been calculated at 19% (2019: 17%).

In the UK Budget on 3 March 2021 it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. As any substantive enactment will be after the balance sheet date, UK related deferred tax balances as at 31 December 2020 continue to be measured at a rate of 19%.

Notes to the financial statements *(continued)*

8 Fixed asset investments

	Shares in subsidiary undertakings \$000
Cost	
At 1 January 2020	670,773
Additions	-
At 31 December 2020	670,773
Provisions	
At 1 January 2020	362,670
Provision	-
At 31 December 2020	362,670
Net book value	
At 31 December 2020	308,103
At 31 December 2019	308,103

Investments in subsidiary undertakings at 31 December 2020 comprise the following:

Company	Shareholding	Registered	Activity
Hill & Smith Group Holdings, Inc	100%	USA	Holding company
Hill & Smith (Jersey) Limited	100%	Jersey	Holding company
Hill & Smith (International) Limited	10%	Great Britain	Holding company
Hill & Smith (Ireland) Unlimited Company	100%	Ireland	Non-trading company

Notes to the financial statements (continued)

9 Debtors

	2020 \$000	2019 \$000
Amounts owed by group undertakings	88,000	104,000
Corporation tax	-	576
	<u>88,000</u>	<u>104,576</u>
Due within one year	88,000	12,576
Due after more than one year	-	92,000
	<u>-</u>	<u>92,000</u>

Intercompany loans included within amounts owed by group undertakings are unsecured. Interest is charged at an arm's length rate.

10 Creditors: amounts falling due within one year

	2020 \$000	2019 \$000
Bank overdraft	232	1,094
Amounts owed to group undertakings	12,134	5,534
Corporation tax	2,400	-
Accruals	38	39
	<u>14,804</u>	<u>6,667</u>

Intercompany loans included within amounts owed by group undertakings are unsecured. Interest is charged at an arm's length rate.

11 Creditors: amounts falling after more than one year

	2020 \$000	2019 \$000
Loans and borrowings	68,789	78,479
	<u>68,789</u>	<u>78,479</u>

Intercompany loans included within amounts owed by group undertakings are unsecured. Interest is charged at an arm's length rate. Loans and borrowings relate to:

- Bank loans – Due between 2 and 5 years, bank loans are unsecured and attracted interest during 2020 at a rate of 1.25% to 1.45% above LIBOR subject to a ratchet as described in the facility agreement; and
- Senior unsecured notes – On 25 June 2019 the Company signed an agreement with an institutional investor for a private placement of \$70,000,000 new senior unsecured notes. The issue consisted of two equal tranches with maturities in June 2026 and June 2029 respectively.

Notes to the financial statements *(continued)*

12 Deferred tax

The movements in deferred taxation during the year are as follows:

	Deferred Tax \$000
At 1 January 2020	146
Profit and loss account	(4)
	<hr/>
At 31 December 2020	142
	<hr/> <hr/>

Details of amounts provided for deferred taxation follow:

	2020 \$000	2019 \$000
Short term timing differences	142	146
	<hr/>	<hr/>
Deferred tax liability	142	146
	<hr/> <hr/>	<hr/> <hr/>

13 Called up share capital

	2020 \$000	2019 \$000
Allotted, called up and fully paid		
20,000,765 (2019: 20,000,765) ordinary shares of \$1 each	20,001	20,001
	<hr/>	<hr/>
	20,001	20,001
	<hr/> <hr/>	<hr/> <hr/>

Each ordinary share carries equal voting rights and there are no restrictions on any share.

14 Contingent liabilities

The Company is a party to cross guarantees given for bank loans and overdrafts of the ultimate parent company and certain fellow subsidiaries amounting to \$112,703,000 (2019: \$215,542,000).

The Company has no other guarantees (2019: \$nil).

15 Dividends

	2020 \$000	2019 \$000
Aggregate amount of dividends paid in the financial year: \$2.15 per share (2019: \$0.85 per share)	43,000	17,000
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

16 Related party transactions

As an ultimately wholly owned subsidiary of Hill & Smith Holdings PLC, the Company has taken advantage of the exemption available under FRS 101 not to disclose transactions that have been made between the Company and other fellow subsidiaries of Hill & Smith Holdings PLC.

17 Ultimate parent company and controlling party

The Company's immediate parent undertaking is Hill & Smith Overseas Limited.

The Company's ultimate parent undertaking and controlling party is Hill & Smith Holdings PLC, a company registered in England. Copies of the Group Financial Statements may be obtained from Group headquarters:

Westhaven House
Arleston Way
Shirley
Solihull
B90 4LH

18 Post Balance Sheet events

No post balance sheet events occurred after the year end.

19 Subsidiaries

Incorporated in the UK

Hill & Smith (International) Limited ^(H)
Hill & Smith (Americas) 2 Limited ^(H)
Hill & Smith (Americas) 3 Limited ^(H)
Hill & Smith (USA) Limited ^(H)

Registered office address:

Westhaven House, Arleston Way, Shirley, Solihull, B90 4LH

Incorporated in Jersey

Hill & Smith (Jersey) Limited ^{(H)*}

Registered office address:

Second Floor, No. 4 The Forum, Grenville Street, St. Helier

Incorporated in Ireland

Hill & Smith (Ireland) Unlimited Company *

Registered office address:

Custom House Plaza, Block 6, International Financial Services Centre, Dublin

Incorporated in the USA

Bergen Pipe Supports, Inc
Carpenter & Paterson, Inc
Creative Pultrusions, Inc
CPK Manufacturing LLC
CPCA Manufacturing LLC
Hill & Smith Group Holdings, Inc ^{(H)*}
Hill & Smith Holdings LLC ^(H)
Hill & Smith, Inc.
Voigt & Schweitzer LLC ^(H)

Registered office address:

c/o The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware 19801

Notes to the financial statements *(continued)*

19 Subsidiaries *(continued)*

Incorporated in the USA (continued)

V&S Amboy Galvanizing LLC
V&S Columbus Galvanizing LLC
V&S Delaware Galvanizing LLC
V&S Detroit Galvanizing LLC
V&S Lebanon Galvanizing LLC
V&S Memphis Galvanizing LLC
V&S New York Galvanizing, LLC
V&S Schuler Engineering, Inc.
V&S Schuler Tubular Products LLC
V&S Taunton Galvanizing, LLC

Registered office address:

987 Buckeye Park Road, Columbus, Ohio, 43207

^(H) – Holding Company

* - Directly held by Hill & Smith (Americas) Limited

All of the listed subsidiaries have a year-end date of 31 December. The results of all of the listed subsidiaries are included in the consolidated results of Hill & Smith Holdings PLC, the Company's ultimate parent undertaking. The Company holds 100% of the share capital of the businesses, either directly or indirectly.