# ISG South Limited

Report and financial statements

18 month period ended

31 December 2016

Company Number 07276092

# ISG South Limited

**Report and financial statements**
**for the 18 month period ended 31 December 2016**

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**Legal form**

Company limited by shares

**Principal place of business**

United Kingdom

**Principal activities**

The principal activity of the company is that of a main contractor in the construction industry.

**Directors**

P M Cossell
J J Lowe
P Martin
M Stockton

**Secretary and registered office**

N Heard

Aldgate House,
33 Aldgate High Street
London
EC3N 1 AG

**Company number**

07276092

**Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU

# Strategic report
## for the 18 month period ended 31 December 2016

The directors present their strategic report together with the audited financial statements for the 18 month period ended 31 December 2016.

### Strategy

With effect from February 2012 all new contracts have been entered into by the company's immediate parent undertaking ISG Construction Limited, which is now being used as the principal contracting vehicle for new contracts within London. ISG South Limited will continue to operate the construction contracts it has previously entered into until they are financially complete, with the only activity in the current period being the run-out of existing contracts.

The key performance indicators used by the company in monitoring performance are profitability and net asset position.

### Ownership

The immediate parent company of ISG South Ltd is ISG Construction Ltd, a company incorporated and registered in the United Kingdom. At 31 December 2016 the company's ultimate parent company was Cathexis Holdings GP LLC, a company incorporated in the United States. The largest group of undertakings for which group accounts are drawn up and of which the company is a member is the group headed by Cathexis Holdings GP LLC. The smallest such group is the group headed by ISG plc, a company incorporated and registered in the United Kingdom. Copies of the group financial statements of ISG plc are available from Companies House. The ultimate controlling party is W B Harrison by virtue of his beneficial interests in the ultimate parent company.

### Principal activities and business model

The principal activity of the Company continued to be that of main contractor in the construction industry.

### Financial review

No new contracts have been entered into during the period covered by this report. The only activity in the current period relates to the run-out of existing contracts. The loss after tax for the 18 month period ended 31 December 2016 is £154,000 (12 months ended 30 June 2015: £318,000).The Company suffered further losses on existing contracts, as the close out of these projects has been far more protracted than initially thought. The Directors are confident that closure of these projects shall be completed swiftly.

*Balance sheet*

The balance sheet on page 12 of the financial statements shows the financial position as at 31 December 2016, which the directors consider satisfactory. The net liability position as at this date of £1,780,000 (30 June 2015: £1,626,000), includes an amount due from group undertakings of £9,464,000. The Directors' assessment of going concern is outlined below.

### Going concern

The Company has received a letter of support from ISG plc confirming that it will provide financial support for a period of 12 months from the date of approval of the Company's balance sheet. The Directors have reviewed the forecast cash flows of the Group and are satisfied that the Company will be able to meet its obligations as they fall due for at least 12 months from the date of approval of the Company's 31 December 2016 balance sheet. As a result, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### Principal risks and uncertainties

The ability to identify and effectively manage the risks that impact the business is fundamental to the continued success of the Company. Accordingly, the key risks and uncertainties facing the Company are considered as part of the Company's well established processes and systems for identifying, evaluating and managing risk. These processes have been reviewed and further enhanced in the period, specifically in the area of financial risk and project risk and include a comprehensive annual business planning process for each division to agree key objectives and strategies, monthly board meetings which use common agendas and reporting packs to allow the consistent identification and discussion of risks and risk mitigation, clearly established bid and tender settlement procedures including levels of delegated authority to ensure that decisions are approved by the appropriate levels of management, up to and including the Group board as well as a number of other regular meetings and documents including monthly Financial and Commercial reviews, weekly rolling cash forecasts and monthly operational project reviews.

The impact of significant risks and their mitigation is continually monitored at both Group and divisional Board meetings throughout the period and are subject to annual review by the Board who maintain overall responsibility. The Group's reporting structure ensures that risk appetite is determined and risks managed within levels acceptable and agreed to by the Board. The risks considered to be the most significant by the Board are set out in the table below :

| **Attracting, developing and retaining staff** | |
|---|---|
| Nature of Risk | - a high calibre workforce is crucial to the Group achieving its aims<br>- improving economic outlook in certain sectors |
| Impact | - adverse impact on project delivery<br>- adverse impact on growth<br>- salary inflation<br>- loss of key staff |
| Mitigation | - remuneration system firmly linked to performance<br>- remuneration includes flexible benefits<br>- continual formal performance appraisal system providing regular assessment of individual performance and options for personal development<br>- succession planning |
| Additional Comments | - employees are actively encouraged to develop their skills, training schemes are offered throughout the Group<br>- increased use of The Academy (our learning and development facility) to identify and develop core competencies |
| Reporting & Monitoring | - regular performance reviews<br>- monthly/quarterly operations reviews<br>- Board review |

***Principal risks and uncertainties (continued)***

| **Financial risk** | |
|---|---|
| Nature of Risk | - credit risk<br>- management of working capital<br>- management of overheads |
| Impact | - insufficient bonding capacity to support business growth<br>- adverse impact on profitability |
| Mitigation | - the Company continues to be supported by the ultimate parent company, ISG plc<br>- cash flow forecasts required for all projects; performance reviewed on a monthly basis<br>- strong creditworthiness of group's customers<br>- financial stability of each subcontractor is monitored regularly and appropriate retentions held |
| Additional Comments | - the Company reviews its treasury position daily and places surplus cash on short-term deposits |
| Reporting & Monitoring | - daily treasury reviews<br>- daily/weekly rolling cash forecasts<br>- monthly working capital reviews<br>- monthly project cash and final account/debtor/retention reviews |

| **Project risk** | |
|---|---|
| Nature of Risk | - failure to manage or deliver a project in accordance with the contract and agreed variations to an appropriate quality and on a timely basis<br>- continuing to win contracts at appropriate margins in markets that are more competitive with appropriate terms and conditions<br>- settling of project disputes<br>- supply chain over-stretched as markets/sectors grow |
| Impact | - issues such as cost overruns, delays, variations and contractual disputes which may have an adverse impact on the profitability and reputation of the Group<br>- potential for loss-making contracts<br>- subcontractor failure |
| Mitigation | - a controlled approach to contract selection to ensure that work undertaken matches the capability and resources available, that contractual terms are acceptable and that clear responsibility for scrutiny and approval is given to the appropriate level of management<br>- clear Corporate Governance and delegated authority levels<br>- maintenance of risk register and key contractual risks<br>- differentiate offering on service and quality<br>- establishment and adherence to Group values |
| Additional Comments | - contracts in progress are controlled and managed through the company's operating structure and procedures, including detailed and regular reviews of forecast revenue and costs to complete<br>- use of training and awards to embed corporate values |
| Reporting & Monitoring | - monthly/quarterly operations reviews<br>- monthly project reviews & reporting packs<br>- monthly Board reviews<br>- systemised and centralised monthly project CVRs (with KPI reporting)<br>- training |

**Principal risks and uncertainties (continued)**

| **Health, safety, environmental and regulatory risks** | |
|---|---|
| Nature of Risk | - failure to manage these risks could result in serious harm to employees, subcontractors, the public or the environment<br>- breach of regulatory requirements |
| Impact | - exposure to significant potential liabilities and reputational damage |
| Mitigation | - a comprehensive policy and framework is in place (including but not exclusively site visits, near miss and hazard reporting)<br>- best practice is shared via the Health and Safety forum with zero tolerance of unsafe practices<br>- the accident incidence rate is monitored closely<br>- regulatory requirements monitored by Company Secretary |
| Additional Comments | - the Group treats health, safety and environmental issues as a priority |
| Reporting & Monitoring | - monthly/quarterly operations reviews<br>- monthly Board reviews |

| **Counterparty risk** | |
|---|---|
| Nature of Risk | - exposure to counterparty risk of clients, subcontractors, suppliers and financial institutions |
| Impact | - failure of any counterparties could lead to significant financial loss |
| Mitigation | - a credit risk assessment is performed on clients before a contract is signed<br>- where possible, credit insurance is taken out on clients or suitable arrangements, such as the use of escrow accounts, reduced credit terms or retentions, are put in place<br>- PCGs, third party bonds or other appropriate security is required from subcontractors<br>- subcontractors' performance is continually monitored and shared across other companies within the Group once they have been approved and are working with the Group |
| Additional Comments | - contracts are spread between subcontractors to the extent possible to reduce dependence on any one subcontractor |
| Reporting & Monitoring | - monthly/quarterly operations reviews |

**Approval**

This strategic report was approved by order of the Board on 2 May 2017

**Company Secretary**

N Heard

The directors present their report together with the audited financial statements for the 18 month period ended 31 December 2016.

**Directors**

*The directors of the company throughout the period were:*

P M H Brown (appointed 1 October 2015, resigned 31 January 2017)
P M Cossell (appointed 15 July 2016)
H G Cowing (appointed 1 March 2016, resigned 31 August 2016)
S Deverill (resigned 15 July 2016)
L C J Duffy (resigned 22 July 2016)
A N Ellis (resigned 15 July 2016)
A M Finn (resigned 17 July 2015)
M S Goldsworthy (appointed 28 September 2015, resigned 31 October 2016)
J C B Houlton (resigned 1 March 2016)
M C Howes (resigned 5 August 2016)
W E Kingwill (appointed 1 November 2015, resigned 15 July 2016)
S D Lawther (resigned 29 April 2016)
J J Lowe
P Martin (appointed 1 November 2015)
D J Mulholland (resigned 21 August 2015)
M Stockton (appointed 15 July 2016)

JS Cranney (resigned as Company Secretary on 31 March 2017)
M Stockton (appointed on 31 March 2017, resigned on 20 April 2017)
N Heard (appointed Company Secretary on 20 April 2017)

**Qualifying third party indemnity provisions**

The Company has put in place qualifying third party indemnity provisions for all of the directors the Company which was in force at the date the date of approval of this report.

**Dividends**

The Company did not pay a dividend during the period (2015: £nil).

**Political donations**

No political donations were made during the period (2015: £nil).

**Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework" ("FRS 101") and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**Auditors**

All of the directors as at the date of this report have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the company's auditor is unaware.

**Approval**

This directors' report was approved by order of the Board on 2 May 2017.

N Heard

**Company Secretary**

N Heard

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISG SOUTH LIMITED

We have audited the financial statements of ISG South Limited for the period from 1 July 2015 to 31 December 2016 which comprises the profit and loss account, the balance sheet, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2016 and of the company's loss for the period then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

*In our opinion based on the work undertaken in the course of the audit:*

- the information given in the strategic report and report of the directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and report of the directors 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

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.

BDO LLP

*Geraint Jones (senior statutory auditor)*
*For and on behalf of BDO LLP, statutory auditor*
*London*
*United Kingdom*
*2 May 2017*

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

# ISG South Limited

## Profit and loss account
## for the 18 month period ended 31 December 2016 and the year to 30 June 2015

| | Note | 2016 | Restated 2015 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Turnover** | 3 | - | 125 |
| Cost of sales | | **(74)** | (559) |
| **Gross Loss** | | **(74)** | (434) |
| Admin expenses | | - | 4 |
| **Loss from operations** | | **(74)** | (430) |
| Net interest payable and similar charges | 7 | **(118)** | - |
| **Loss on ordinary activities before taxation** | | **(192)** | (430) |
| Taxation on Loss on ordinary activities | 8 | **38** | 112 |
| **Loss on ordinary activities and comprehensive income after taxation and Loss for the financial period** | | **(154)** | (318) |

The notes on pages 14 to 23 form part of these financial statements.

# ISG South Limited

## Balance sheet
## at 31 December 2016

*Company Number 07276092*

| | Note | 31 December 2016 £'000 | 31 December 2016 £'000 | 30 June 2015 £'000 | 30 June 2015 £'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Debtors due within one year | 9 | **9,464** | | 1,343 | |
| **Creditors: amounts falling due within one year** | 10 | **(11,244)** | | (2,969) | |
| **Net current liabilities** | | | **(1,780)** | | (1,626) |
| **Net liabilities** | | | **(1,780)** | | (1,626) |
| **Capital and reserves** | | | | | |
| Share capital | 11 | - | | - | |
| Retained earnings | | **(1,780)** | | (1,626) | |
| **Shareholders' deficit** | | | **(1,780)** | | (1,626) |

The notes on pages 14 to 23 form part of these financial statements

The financial statements on pages 11 to 23 were approved and authorised for issue by the Board of Directors on 2 May 2017 and were signed on its behalf by:

**Director**

M Stockton

# ISG South Limited

## Statement of changes in equity
## for the year ending 30 June 2015

| | Share capital £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|
| **1 July 2014** | **-** | **(1,308)** | **(1,308)** |
| Loss for the year | | (318) | (318) |
| **At 30 June 2015** | **-** | **(1,626)** | **(1,626)** |

## Statement of changes in equity
## for the period ending 31 December 2016

| | Share capital £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|
| **1 July 2015** | **-** | **(1,626)** | **(1,626)** |
| Loss for the 18 month period | | (154) | (154) |
| **At 31 December 2016** | **-** | **(1,780)** | **(1,780)** |

The notes on pages 14 to 23 form part of these financial statements

## 1 Accounting policies

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

The financial statements have been prepared on a historical cost basis.

During the period the Company changed its accounting reference date from 30 June to 31 December. The current period therefore covers the 18 month period to 31 December 2016, with the comparatives referring to the year ended 30 June 2015.

*First time application of FRS101*

In the current period the Company has adopted FRS101. In previous periods the Financial Statements were prepared in accordance with applicable UK accounting standards.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with applicable UK accounting standards. Consequently, the principal accounting policies are unchanged from the prior year. The change in basis of preparation has enabled the Company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below.

*Disclosure exemptions adopted*

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by ISG plc.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of ISG plc. These financial statements do not include certain disclosures in respect of:

- Share based payments;
- Business combinations;
- Assets held for sale and discontinued operations;
- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Impairment of assets.

## 1 Accounting policies *(continued)*

*Disclosure exemptions adopted (continued)*

The financial statements of ISG plc can be obtained as described in note 12.

There have been no other material amendments to the disclosure requirements previously applied in accordance with applicable UK accounting standards.

*Judgements and key areas of estimation uncertainty*

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

*Going concern*

As discussed in the Strategic Report and after making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors adopt the going concern basis in preparing the financial statements.

***Financial assets***

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity.

The Company's accounting policy for each category is as follows:

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (eg. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. When an uncertainty arises about the collectability of amount already included in contract revenue, and already recognised in profit or loss, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than an adjustment to the amount of revenue. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are

1 **Accounting policies** *(continued)*

*Loans and receivables (continued)*

discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

***Financial liabilities***

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

*Other financial liabilities*

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.
- Loans from group companies are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method. The difference between the fair value of the loan on initial recognition and the amount of the proceeds is credited directly to equity as a capital contribution.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*Share capital*

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity instruments.

## 1 Accounting policies *(continued)*

*Dividends payable*

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are paid. In the case of final dividends, this is when approved by the shareholders at the AGM.

*Provisions*

The Company has recognised provisions for liabilities of uncertain timing or amount. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

*Deferred taxation*

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax arising as a consequence of investment property carried at fair value is calculated on the basis that the property will be recovered through a sale of the property in line with the Company's business model which is to generate value in the form of capital appreciation.

**1 Accounting policies** *(continued)*

*Profit from operations*

Profit from operations comprises the results of the Company before interest receivable and similar income, interest payable and similar charges, corporation tax and deferred tax.

*Turnover*

Turnover represents the fair value of consideration receivable, excluding value added tax, for services supplied to external customers, including estimates in respect of amounts still to be invoiced. All turnover is generated in the United Kingdom.

Revenue from contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed. Revenue from construction contracts is recognised in accordance with the company's accounting policy on long term contracts

*Long term contacts.*

Revenue from construction contracts includes the amount initially agreed in the contract plus any variations in contract work to the extent that it is probable that the variation will result in revenue that can be reliably measured (usually when instructions have been received from the client) plus any claims recoveries to the extent that negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be reliably measured.

Margin on construction contracts is recognised by reference to the stage of completion and the final estimated margin, provided that the final outcome can be assessed with reasonable certainty. The stage of completion is measured with reference to the proportion of the value of the contract at the reporting date against the total estimated value of the contract, as measured by a survey of the work performed. The revenue recognised reflects the value of the contract at the reporting date, with reference to a survey of work performed. The value of work carried out during the period includes amounts which have not been invoiced.

Where the outcome of the construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Contract costs include costs that relate directly to the specific contracts and costs that are attributable to contract activity in general and can be allocated to the contract.

Full provision is made for all known or expected losses on individual contracts immediately, once such losses are foreseen.

The gross amount due from customers for contract work is shown as a receivable. The gross amount due comprises costs incurred plus recognised profits less the sum of recognised losses and progress billings. Where the sum of recognised losses and progress billings exceeds costs incurred plus recognised profits, the amount is shown as a liability. Amounts recoverable on construction contracts are stated at cost plus the profit attributable to that contract, less any impairment losses. Progress payments for construction contracts are deducted from amounts recoverable. Payments in advance on construction contracts represent amounts received in excess of revenue recognised on construction contracts.

## 2 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions about the carrying amount of assets and liabilities, the amount of income and expenditure recognised in the period and the disclosure of contingent liabilities. Actual results may differ from these estimates. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

**Revenue and profit recognition**

The Company's revenue recognition and long-term construction contracts policies are set out in Note 1 above. These policies are central to the way in which the company values the work it has carried out at each reporting date and the estimation of the percentage completion of the contract. These policies require forecasts to be made of the outcome of long-term construction contracts and require assessments and judgements to be made on the recovery and agreement of pre-contract costs, variations in work scopes, claim recoveries, expected contract costs to complete and the progress on contract programmes. The company has appropriate control procedures in place to ensure estimates are calculated on a consistent basis. These assessments are validated by third party surveyors on behalf of customers who certify the value of work performed.

**Recoverability of debts**

The age, nature and recoverability of all debtors and amounts recoverable on long term contracts are reviewed regularly by management and provisions made where appropriate.

## 3 Turnover

An adjustment has been made to gross up revenue and cost of sales recognised in the year ended 30 June 2015 totalling £1,102,000. The adjustment relates to amounts already included in contract revenue, and already recognised in profit or loss in previous periods, of which recovery had ceased to be probable. Following this adjustment, such amounts have been recognised as an expense rather than an adjustment to the amount of revenue. The adjustment has no impact on profit.

**Analysis of turnover**

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| Analysis by class of business: | | |
| Construction contract service revenue | - | 125 |

All turnover is generated in the United Kingdom.

## 4 Auditor remuneration

Audit fees of £10,500 (2015: £10,500) for the current year has been borne by another group entity.

Fees paid to the Company's auditor, BDO LLP, and its associates for services other than the statutory audit of the Company are not disclosed in ISG South Limited's accounts since the consolidated accounts of ISG plc, are required to disclose non-audit fees on a consolidated basis.

## 5 Employees

The Company does not employ any staff. Personnel engaged on projects being executed by the company are employed by other entities within the ISG plc group and the costs associated with those staff are recharged to the Company, which are reflected within cost of sales.

## 6 Directors' remuneration

Remuneration costs of the directors are borne by fellow group companies. The amount allocated to this company is £nil because this is the amount receivable by the directors in respect of qualifying services to this company.

## 7 Net interest payable and similar charges

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Intercompany interest payable | **118** | - |

## 8 Tax expense

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Total current tax expense** | | |
| Current tax on profits for the year | **(38)** | - |
| Adjustment for under provision in prior periods | **-** | (112) |
| | | (112) |
| Total tax credit | **(38)** | (112) |

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loss before income taxes | **(192)** | (430) |
| Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.0% (2015 - 20.75%) | **(38)** | (89) |
| Adjustment to prior year tax provision | **-** | (112) |
| Current year losses carried forward not utilised | **-** | 89 |
| Total tax credit | **(38)** | (112) |

*Changes to corporation tax rates*

During the year the UK corporation tax rate was reduced from 20.75% to 20.00%. Deferred tax that is expected to reverse in future periods has been calculated using rates that were substantively enacted at 31 December 2015.

There is an unrecognised deferred tax asset of £208,000 (2015: £207,000) in respect of tax losses, which has not been recognised in these accounts as there is insufficient evidence of the availability of sufficient taxable profits in the foreseeable future.

## 9 Debtors

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Debtors due within one year: | | |
| Trade debtors | **-** | 49 |
| Amounts recoverable on contracts | **-** | 224 |
| Amounts owed by group undertakings | **9,464** | 1,070 |
| | **9,464** | 1,343 |

## 10 Creditors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Bank overdraft | **10,032** | 1,211 |
| Trade creditors | **119** | 451 |
| Amounts owed by group undertakings | **-** | 6 |
| Corporation tax | **1,093** | 1,128 |
| Other taxation and social security | **-** | 173 |
| | **11,244** | 2,969 |

## 11 Share capital

| | Authorised | | | |
|---|---|---|---|---|
| | 2016 Number | 2016 £ | 2015 Number | 2015 £ |
| Ordinary shares of £1 each | **1** | **1** | 1 | 1 |

| | Allotted, called up and fully paid | | | |
|---|---|---|---|---|
| | 2016 Number | 2016 £ | 2015 Number | 2015 £ |
| Ordinary shares of £1 each | **1** | **1** | 1 | 1 |

## 12 Ultimate parent company and control

The immediate parent undertaking is ISG Construction Ltd.

The directors regard Cathexis Holdings GP LLC as the ultimate parent undertaking and the ultimate controlling party is W B Harrison by virtue of his beneficial interests in the ultimate parent company.

The smallest group to which these financial statements are consolidated is ISG plc. Copies of the financial statements of ISG plc are available from Companies House.

The largest group to which these financial statements are consolidated in the UK is Cathexis UK Holdings Ltd. Copies of the financial statements of Cathexis UK Holdings Ltd are available from Companies House.

The company has availed of the exemptions available in FRS 101 from disclosing transactions entered into between two or more members of a group and also key management personnel disclosures.

## 13 First time adoption of FRS 101 Reduced Disclosure Framework

This is the first time that the company has adopted FRS 101 having previously applied applicable UK accounting standards.

The date of transition to FRS 101 was 1 July 2014.

In applying FRS 101 for the first time the company has made the following elections:

- To retain the carrying amounts of property, plant and equipment at the previous carrying amounts under applicable UK accounting standards
- Not to restate any business combinations that occurred before the date of transition to FRS 101.

Other than the adoption of the reduced disclosures there was no material effect of applying FRS 101 for the first time. The disclosure exemptions adopted are included in note 1 to the financial statements.