ISG South Limited

Report and Financial Statements

Year ended

31 December 2019

Company Number 07276092

ISG South Limited

Report and Financial Statements
for the year ended 31 December 2019

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Directors
P M Cossell
J J Lowe
M Stockton

Secretary
N Heard

Registered office and principal place of business
Aldgate House
33 Aldgate High Street
London
EC3N 1AG

Registered company number
07276092

Legal form
Private company limited by shares

Country and Date of Incorporation
United Kingdom, 7 June 2010

Directors' Report
for the year ended 31 December 2019

The Directors present their report together with the Financial Statements of ISG South Limited (the 'Company') for the year ended 31 December 2019.

Directors
The Directors of the Company throughout the period were:
P M Cossell
J J Lowe
P Stephen-Martin (Resigned 8 August 2019)
M Stockton

Principal activities
The principal activity of the Company is that of a main contractor in the construction industry.

Audit exemption
For the year ended 31 December 2019, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

COVID-19
Following the declaration by the World Health Organisation (WHO) of COVID-19 as a global pandemic – and the restrictions implemented by governments around the world during the first quarter of 2020 – there has, naturally, been an impact to the operations of the ISG plc group and Company in 2020 subsequent to the year under review.

As part of the ISG plc group we are constantly monitoring the evolving situation across our geographies and have developed responses based on local requirements. We have forecasted the effects of differing levels of reduced volume in our operating subsidiaries, and the necessary mitigating actions that the businesses would implement, to ensure they have sufficient working capital to maintain operations.

COVID-19 creates uncertainty for the remainder of the financial year, but the Directors have further cash preservation measures that they are willing to implement if appropriate.

Review of the business
No new contracts have been entered into during the period. Consequently, the only activity in the period is that of closing out of existing contracts. This is not expected to change going forward.

The decrease in the net assets of the Company of £1.6m to £(1.8)m net liability results from the loss of the year of £1.6m. The Company continues to receive support from the ISG plc group, providing a guarantee to the Company's bankers in respect of the Company's working capital facility.

Dividends
The Company did not pay a dividend during the period (2018: £nil).

Political donations
No political or charitable donations were made during the period (2018: £nil).

Financial Risk Management Objectives and Policies (including Information on exposure to market risk, credit risk, liquidity risk and cash flow risk)
Market risk
Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign exchange risk
Foreign exchange risk is reviewed on a regular basis by the ISG Group Treasury Department and the Group Board and if considered necessary a strategy to minimise any potential risk will be discussed and implemented. Significant foreign exchange movements are also reviewed by the Group Board and the process of reviewing different options is undertaken on a quarterly basis.

Interest rate risk
Currently the effect of interest rate changes on net interest income and expense is immaterial to the Company.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies such as Standard and Poor's, Moody's and Fitch. No material credit exposure is permitted to a financial institution with a rating lower then BBB- or equivalent. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Liquidity and cash flow risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Responsibility for liquidity risk management rests with the Board of Directors. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring bank covenant compliance, forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. An ISG Group Company can also request financing from ISG Group.

A daily cash flow forecast for the next four weeks is prepared on a weekly basis and a six-month forecast is produced monthly. These forecasts are reviewed at company and Group level. Additionally, there is a detailed review of the assumptions underpinning these forecasts by Group Finance. Minimum cleared cash levels have been imposed on each subsidiary company and actual balances are monitored against the minimum levels on a daily basis. In addition, the top and bottom ten cash contracts by company are reviewed at company and Group level on a monthly basis. Further details relevant to the Company's liquidity position and its status as a going concern are included within the Directors' Report, and also with the significance of the potential impact of COVID-19 to the Company, see note 1.

Going Concern
Information on the business environment in which the Company operates, including the factors that are likely to impact the future prospects of the Company, are included within various sections of the Directors' Report.

A specific section has been added to the Directors' Report, which discusses the impacts to the Company in relation to the risks created by the COVID-19 pandemic.

As part of the ISG plc group, the Directors have prepared cash flow forecasts for the Group and Company for a period in excess of twelve months from the date of approval of these financial statements. They reflect an assessment of current and future market conditions and risks and uncertainties in the business, their impact on the Company's performance, and the actions taken by management in response to current market conditions. The forecasts completed on this basis demonstrate that the Company will be able to operate with its available resources.

Based on the exercise described above, the Directors have a reasonable expectation that the Company have adequate resources to continue operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements of the Company.

Brexit
The UK has left the European Union on 31 January 2020, however we continue to operate under EU regulations during the transition period which is due to end on 31 December 2020. The final trading terms are still under negotiation. The Company will continue to monitor the outcome from the negotiations during the transition period for their impact to the Company. Where changes to our operating practices are needed these will be developed ahead of the end of the transition period.

The Company has previously assessed the risks of several Brexit scenarios and will use these results and related developed mitigation strategies for any operating practice changes required.

Directors' Indemnity insurance
The Directors have the benefit of an indemnity from the Company in respect of liabilities incurred as a result of their office. This indemnity is provided under the Company's Articles of Association and satisfies the indemnity provisions of the Companies Act 2006.

The Company has taken out an insurance policy in respect of those liabilities for which the Directors may not be indemnified. Neither the indemnity nor the insurance provides cover in the event that a director is proved to have acted dishonestly or fraudulently.

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 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.

Approval
This Directors' Report was approved by order of the Board on 9 June 2020.

Nicholas Heard
Company Secretary

ISG South Limited

Income Statement
for the year ended 31 December 2019

	Note	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Turnover		**-**	-
Cost of sales		**(1,945)**	(221)
Gross Loss		**(1,945)**	(221)
Administrative expenses		**-**	-
Loss on ordinary activities before taxation		**(1,945)**	(221)
Taxation on loss on ordinary activities	5	**370**	107
Loss on ordinary activities and comprehensive income after taxation and loss for the financial period		**(1,575)**	(114)

There were no recognised gains or losses in the current period or the preceding year other than as stated above. Consequently, no separate statement of other comprehensive income is presented.

The accompanying notes on pages 9 to 14 are an integral part of these financial statements.

ISG South Limited

Balance Sheet
as at 31 December 2019

Company Number 07276092

	Note	2019	2018
		£'000	£'000
Current assets			
Debtors due within one year	6	**395**	25
Cash and cash equivalents		**2**	-
		397	25
Creditors: amounts falling due within one year	7	**(2,233)**	(286)
Net current liabilities		**(1,836)**	(261)
Net liabilities		**(1,836)**	(261)
Capital and reserves			
Share capital	8	**1,000**	1,000
Retained earnings		**(3,929)**	(2,354)
Capital reserve		**1,093**	1,093
Shareholders' deficit		**(1,836)**	(261)

The accompanying notes on pages 9 to 14 are an integral part of these financial statements.

For the period ended 31 December 2019 the Company was entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies. Members have not required the Company to obtain an audit in accordance with under s476(1) of the Companies Act 2006.

The Directors acknowledge their responsibility for:

- ensuring the Company keeps accounting records which comply with s386, and
- preparing financial statements which give a true and fair view of the state of affairs of the Company as at the end of its financial year, and of its profit and loss for the financial year in accordance with s394, and which otherwise comply with the requirements of the Companies Act relating to financial statements, so far as applicable to the Company.

The financial statements were approved and authorised for issue by the Board of Directors on 9 June 2020 and were signed on its behalf by:

Mark Stockton
Director

ISG South Limited

Statement of Changes in Equity
for the year ending 31 December 2019

	Share Capital £'000	Capital Reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	1,000	1,093	(2,240)	(147)
Loss for the year	-	-	(114)	(114)
At 31 December 2018	1,000	1,093	(2,354)	(261)
Loss for the year	-	-	(1,575)	(1,575)
At 31 December 2019	**1,000**	**1,093**	**(3,929)**	**(1,836)**

The accompanying notes on pages 9 to 14 are an integral part of these financial statements.

1 Accounting policies

Basis of preparation
These financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (FRS 100) and Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The principle 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. The presentation currency used is Pounds Sterling and amounts have been presented in round thousands.

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:

- 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.

The financial statements of ISG plc can be obtained as described in note 9.

The Company has adopted IFRS 16 – "Leases" in these financial statements. As the Company had no operating leases and has not entered into any leases in 2019 no changes were required to the financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Going concern
The financial statements have been prepared on a going concern basis. The Directors have prepared cash flow forecasts for the Group and Company for a period in excess of twelve months from the date of approval of these financial statements. The Directors believe that the Company is well placed to manage the business risks despite the current uncertain economic outlook. Should the impacts of COVID-19 be significantly greater than currently anticipated then additional working capital funding may be required from the ISG plc group.

On the basis of the exercise described above and with consideration of the actions taken or to be taken by the Directors to mitigate the impact of COVID-19 on the business, the Directors have a reasonable expectation that the Company have adequate resources to continue operational existence for at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements of the Company.

Revenue Recognition
Revenue represents the fair value of consideration received or receivable for goods and services provided to external customers, net of trade discounts and excluding value added tax and similar sales-based taxes. The Company recognises revenue based on when customers obtain control of goods or services. Where a contract with a customer contains multiple performance obligations the revenue for each is accounted for separately, applying the policies below to each obligation.

1 Accounting policies *(continued)*

Long-term contracts
Revenue from long-term contracts (including construction contracts) includes the amount initially agreed in the contract, plus any variations in contract work to the extent that it is highly probable that the variation will result in revenue that can be reliably measured (usually when instructions have been received from the client), plus any claim recoveries to the extent that negotiations have reached an advanced stage such that it is highly probable that the customer will accept the claim and the amount can be reliably measured. Revenue relates to the creation or enhancement of construction assets, which the customer controls, as the asset is created.

The Company has chosen to use an output method to measure progress for contracts where revenue is recognised over time. The revenue recognised reflects the value of the contract at the reporting date, with reference to a survey of work performed. Normally the survey is conducted by a third party and a valuation certificate received. Internal valuations are also used. The value of work carried out during the period includes amounts which have not been invoiced at the period end. This method, the output method, has been deemed the most appropriate method of contract progression.

Where the outcome of the 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 contracts are deducted from amounts recoverable. Payments in advance on contracts represent amounts received in excess of revenue recognised on contracts.

Other services
Revenue from maintenance 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. This is in line with the total value of the contract and the programme of works agreed before commencing with customers. Revenue from consulting works is measured on a time plus agreed expenses not exceeding the agreed total value with customers.

Financial instruments
Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial asset only when the contractual rights to the cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. A financial liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

The principal financial assets and liabilities of the Company are as follows:

(a) Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost, less any impairment.

1 Accounting policies *(continued)*

In relation to trade receivables, a provision for expected credit losses is made based on an assessment of credit risk and aging. The carrying amount of the receivables is reduced through use of an allowance provision account. The expense recognised on creating the provision is recognised within administrative expenses in the income statement. Impaired debts are derecognised when they are assessed as uncollectible.

If collection is expected in more than one year, receivables are classified as non-current assets and are adjusted for the time value of money.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term highly-liquid investments that are readily convertible (with a maturity of three months or less) to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(c) Trade payables

Trade payables are not interest bearing and are recognised at fair value and subsequently measured at amortised cost.

(d) Borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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.

Taxation
The Company's tax charge is the sum of the total current and deferred tax charges. Current tax is the tax payable on the taxable profits for the period and any adjustment in respect of prior periods.

Deferred tax liabilities are recognised in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial and reporting purposes and the amounts used for taxation purposes. The recognition of deferred tax assets is based upon whether it is probable that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the tax assets in the future. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets and liabilities are offset to the extent they arise from the same tax jurisdiction.

2 Critical accounting estimates and judgements

The preparation of financial statements under IFRS 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 and assumptions. The Company based its assumptions and estimates on parameters available when the 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.

Going Concern
The Company's decision to continue to use the going concern basis for the preparation of the financial statements is supported by cashflow forecasts. Estimation has been used within the forecasts to quantify the impact of the timing and amount of cash in and outflows.

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 consistentbasis. 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 for impairment made where appropriate.

3 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.

4 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 (2018:£nil).

5 Tax expense

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Total current tax expense		
Current tax on profits for the year	**(370)**	42
Adjustment for prior periods	**-**	65
Total tax credit	**(370)**	107

The current tax credit for the period to 31 December 2019 is calculated at a rate of 19.00% (2018: 19.00%) payable by corporate entities in the United Kingdom on taxable profits under law in that jurisdiction.

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

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Loss before income taxes	**(1,945)**	(221)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 19.00% (2018: 19.00%)	**(370)**	42
Adjustment to prior year tax provision	**-**	65
Total tax credit	**(370)**	107

Changes to corporation tax rates
Deferred tax that is expected to reverse in future periods has been calculated using rates that were substantively enacted at 31 December 2019. No changes to the corporation tax rate were enacted during the year. In the March 2020 budget, the Chancellor announced that, in line with the 2019 election manifesto the next UK finance act would reverse the reduction in tax rate to 17% so that corporation tax would remain at 19%. As this has not yet been signed into law it is not appropriate to change the rate at which deferred tax is calculated.

There is an unrecognised deferred tax asset of £nil (2018: £348k) 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.

6 Debtors

	2019 £'000	2018 £'000
Debtors due within one year:		
Corporation tax	**395**	25

7 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Bank overdraft	-	161
Trade creditors	3	4
Amounts owed to group undertakings	286	121
Accruals and deferred income	1,944	-
	2,233	286

8 Share capital

	Authorised			
	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of £1 each	1,000,001	1,000	1,000,001	1,000

	Allotted, called up and fully paid			
	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of £1 each	1,000,001	1,000	1,000,001	1,000

The capital reserve represents a capital contribution of £1,093k made during 2017.

9 Ultimate parent company and control

The immediate parent undertaking is ISG Construction Holdings Ltd, a company incorporated and registered in the United Kingdom. The Company's ultimate parent company is Cathexis Holdings LP, a company incorporated and registered 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 LP. 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 and 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.

10 Post balance sheet events

Subsequent to 31 December 2019, the COVID-19 pandemic has impacted globally. We have forecasted the effects of differing levels of reduced volume in our operating subsidiaries over the short term and the necessary mitigating actions that the business would implement to ensure the Company has sufficient working capital to maintain operations as detailed in the going concern consideration in the accounting policies (note 1).

The implications to the medium and longer term forecasts have also been considered and no material change is anticipated to the carrying value of non current assets or liabilities. It is likely that the expected credit loss provisions on financial assets will increase in 2020, although it is not expected to materially affect any short term receivables recognised at 31 December 2019.