

Hydraulic Authority III Limited

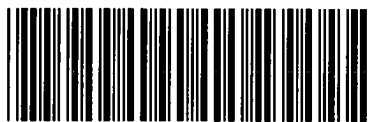
Report and Financial Statements

Year ended

31 March 2020

Company Number 11686668

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Hydraulic Authority III Limited

Report and financial statements
for the year ended 31 March 2020

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Legal form

Private company limited by shares

Country of incorporation

England and Wales

Directors

A S McNutt
A J Richards
M Rost
A Wiechkoske

Registered office

c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester, England, M2 3DE

Company number

11686668

Auditors

BDO LLP, Level 12, Thames Tower, Station Road, Reading, Berkshire, RH1 1LX

Hydraulic Authority III Limited

Strategic report for the year ended 31 March 2020

Business Review

Hydraulic Authority III Limited is an intermediate parent company in the Pirtek group of companies ("the Group"), which operate in seven European countries, each subsidiary supporting a network of franchisees in each country through the supply of products and services except in Sweden which operates a company owned model, and Belgium with a mixed model. The principal activity of the network itself is the delivery of time-sensitive, on-site hose replacement services.

Pirtek has continued with the same strategy and operational focus which has seen us grow over the past few years. Business performance for the year was in line with expectations until early 2020 when the coronavirus pandemic hit the markets in which we operate. In March 2020, our key markets were in lockdown and this continued into April 2020. The Group's operations have proved very resilient with all 196 centres staying open and coping well through the disruption and negative impact on demand caused by the pandemic. During these difficult times the Group continued to provide services to end customers in a wide range of sectors including those designated by governments as critical to keeping economies functioning. This included waste management, construction, food production, logistics and manufacturing. The Group has kept all its trade counters open throughout and has maintained the highest levels of mobile service possible.

The directors attribute the resilience to the Group's strong competitive position including:

1. The strength of one-hour mobile service and product offering
2. Excellent geographic coverage
3. Long term end-customer relationships
4. Industry leading staff training
5. Strong network of franchisees and dedicated employees

Despite the positive trends noted above, the directors have assessed the uncertainties present due to the ongoing impact of the coronavirus pandemic and considered probable scenarios in financial forecast models. This is further discussed in the principal risks and uncertainties section of this report.

Key performance indicators

The Company's principal key performance indicator is the comparison between the carrying value of its investments against the position and performance of these investments.

Management have assessed the recoverability of the Company's investments and considered whether any indicators of impairment exist, based on its subsidiaries' position, current and projected performance and wider market conditions.

Mainly due to the impacts of coronavirus, the directors concluded that there were indicators of impairment relating the company's investment balance. The directors engaged an independent firm of valuation experts in order to perform an exercise to compare the carrying value of the cash generating units to which the investment balance relates, against their recoverable amounts and to determine whether there were impairments to be recognised (note 7).

Business environment

The emergency hydraulic hose replacement market across the United Kingdom and Europe is diverse due to the wide range of industries demanding the service. The demand for a time-sensitive maintenance solution is of greater importance in sectors with high labour costs, well-evolved customer service standards and where equipment downtime costs greatly outweigh the cost of the Pirtek service.

Hydraulic Authority III Limited

Strategic report for the year ended 31 March 2020

Therefore, the core offering of the Pirtek solution is:

- 1 Rapid response - aim within 1 hour;
- 2 Quality product - hoses and fittings usually required for high value capital items;
- 3 Nationwide support - ability to resolve problems across a clear geographical area; and
- 4 Range - having the appropriate product items available at very short notice.

Strategy

The Company's strategy is to continue to support the Pirtek group, which aims to increase its geographic footprint and improve density of coverage in key markets through additional centres and mobile service units.

Principal risks and uncertainties

The company has borrowings which are secured by the net assets of its investment in Pirtek Europe Limited and its subsidiaries. Fellow companies within the Hydraulic Authority I Limited group of companies (The Group) are cross guarantors to these borrowings and therefore its liquidity is intrinsically linked with the performance of the Group, of which it is a member.

The Group is exposed to the general economic conditions in each of the countries it operates as well as the performance of specific sectors. However, the number of countries, range of sectors as well as the number and varying sizes of end customer provide a good level of overall resilience.

Financial risk

The Group relies on both equity and debt finance to fund the Group's activities. The Group relies on its financial counterparties to provide various facilities such as its term loan and revolving credit facility. Failure of financial counterparties to provide such services could have a material effect on the Group, therefore the debt funding position is closely monitored.

During February 2020, the Group started to feel the impact of the coronavirus pandemic which has continued to impact countries and companies across the world to varying degrees. This has negatively impacted the operating results of the Group and introduced greater uncertainty regarding the Group's financial projections for trading and liquidity. The countries in which the Group operates experienced lockdowns introduced at different times which lasted for differing periods and had a more severe impact in some countries than others. Of the Group's key markets, sales in Germany held up best during the lockdown phase and started to recover earlier than the Group's other markets. The resulting economic uncertainties have altered the risk environment such that in the short to medium term the key operating and financial risks to the Group could include:

- reduction in end customer demand, and as a result reduction in revenues and cash flows;
- franchisee settlement terms being extended, re-negotiated or certain debts being deemed irrecoverable;
- impact on service delivery from franchisee and own staff absence due to sickness;
- disruption to the supply chain and delivery of product to franchisees and end customers;
- supplier manufacturing facilities suffering from staff absence due to sickness or having enforced social distancing rules and the resultant impact on product supply.

Management reacted promptly to the impact of the above challenges with a number of key short term actions across the business to ensure continuity of operations. These included taking extra steps to safeguard the health and safety of employees and working closely with suppliers to maintain supply of hydraulic products. Management worked with franchisees to ensure trade counters remained open and mobile operations were maintained to ensure service to end customers, particularly those which governments designated as essential services.

The Directors have reviewed cash flow forecasts prepared by management covering a period of more than 12 months from the date of approval of these financial statements. These cash flow forecasts show that in a downside scenario the Group would need to take mitigating actions to conserve cash. The Directors have considered what mitigating actions would be required and the timeframe within which those actions would be needed. The key mitigating action available to the Group would be reductions in controllable expenditure. The Directors' consider

Hydraulic Authority III Limited

Strategic report for the year ended 31 March 2020

that this mitigating action would be achievable as operating cash generation could be maintained whilst deferring the identified expenditures.

The cash flow forecasts are also dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and longer term borrowing which ends in November 2025. The downside cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. However, given the Group's stronger than budgeted performance for the first 5 months of the year, this is becoming increasingly less likely. In the event of a breach of covenant, the Group's bank borrowings, as well as its shareholder loan notes, would become repayable on demand. If circumstances led the Directors to believe a breach of covenants is likely, they will engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained.

Approved

This strategic report was approved on behalf of the Board on 7 October 2020

A handwritten signature in black ink, appearing to read 'A Richards', with a stylized flourish at the end.

A Richards
Director

Hydraulic Authority III Limited

Directors' report for the year ended 31 March 2020

The directors present their report together with the strategic report and audited financial statements for the year ended 31 March 2020.

Results and dividends

The statement of comprehensive income is set out on page 12 and shows the loss for the year.

The trading results for the year, and the Company's financial position at the end of the year, are shown in these financial statements. The Company is a wholly owned subsidiary of Hydraulic Authority II Limited which will continue to provide such financial support for the business as it requires.

The directors are unable to recommend payment of a dividend.

Principal activities

The Company is an intermediate holding company. Its subsidiaries operate in seven European countries and each subsidiary supports the network of franchisees in each country through the supply of products and services, except Sweden which operates an owned model, and Belgium which operates a mixed owned and franchise model. The principal activity of the franchise network itself is the delivery of time-sensitive, on-site hose replacement services.

Financial risk management objectives and policies

The Company has financial obligations to its external debt provider.

The existence of these financial obligations expose the Company to a number of financial risks. The main risks arising from the Company's financial obligations are interest rate risk and liquidity risk. The directors review policies for managing each of these risks, and they are discussed in detail in the Strategic Report on pages 3 to 5.

Going concern

The company has borrowings which are secured by the net assets of its investment in Pirtek Europe Limited and its subsidiaries. Fellow companies within the Hydraulic Authority I Limited group of companies (The Group) are cross guarantors to these borrowings and therefore its liquidity is intrinsically linked with the performance of the Group, of which it is a member. The going concern of the company has therefore been assessed at the Group level.

In consideration of the Group's current resources and trading, access to funding if and as required, and review of financial forecasts and projections, the Directors have a reasonable expectation that the Group and therefore the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

In the period to the end of January 2020, prior to the emergence of the coronavirus pandemic in Europe, the Group's operations were performing in line with budget and ahead of the prior year. However, from late February through to May 2020, the pandemic negatively impacted the operating results of the Group and introduced uncertainty into our markets. Management and the directors were proactive to respond and support the franchisee network, which remained open for business throughout, and the Group has demonstrated resilience in both operational performance and a strengthening of financial results. As at the date of approval of these financial statements, the impact of the coronavirus pandemic on the global landscape, and consequently the Group's trading, is continually evolving. The resulting economic uncertainties have altered the risk environment, such that in the short to medium term, the key financial risks to the Group are considered as follows:

- reduction in end customer demand, and as a result reduction in revenues and cash flows;
- franchisee settlement terms being extended, re-negotiated or certain debt being deemed irrecoverable;
- impact on service delivery from franchisee and own staff absence due to sickness;
- disruption to the supply chain and delivery of product to franchisees and end customers; and,
- supplier manufacturing facilities suffering from staff absence due to sickness or having enforced social distancing rules and the resultant impact on product supply.

Hydraulic Authority III Limited

Directors' report for the year ended 31 March 2020

Key mitigating actions have been taken by the Directors include:

- cost control measures and accessing government payroll subsidies where available;
- supporting franchisees to access the grants and funding available;
- improved communication with and between franchisees so they can help each other maintain coverage in the event of staff sickness;
- our supply chain teams in different countries working closely together to move group stock between countries as appropriate and steps taken to increase franchisee stock of key products; and,
- holding higher stocks of certain items and maintaining dual sourcing of key products.

In consideration of the factors above, the management team have prepared a revised three year forecast, resetting expectations of operating revenues, profitability and cash flows. These cash flow forecasts are dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and existing longer term borrowing which ends in November 2025. These forecasts, in the base case, indicate that the Group will have sufficient funds from its existing facilities to meet its liabilities as they fall due.

The delivery of the forecasts, particularly to achieve the forecast growth, is subject to uncertainty. The downside scenario cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. In the event of a breach of covenant, the Group's bank borrowings which are held by the Company and for which cross guarantees are provided by subsidiaries of the Group, as well as its shareholder loan notes which are held by Hydraulic Authority II Limited, would become repayable on demand. If circumstances lead the Directors to believe a breach of covenants is likely, they will proactively engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The directors acknowledge that receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained. Also, with the Group's continued improvement in financial performance since the height of the European lockdown, if market conditions were to remain broadly similar to those faced now, the directors consider a breach would be significantly less likely.

Having reviewed the latest financial information and forecasts available, the Directors consider that the Group and Company will obtain the necessary support referred to above, if required, from its credit facility provider and shareholders and will continue as a going concern for a period of at least twelve months from the date of signing these financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

The directors acknowledge that the possible impact of the coronavirus on future trading, through a reduction in sales and cash flows caused by reduced demand, may cause a breach of covenants leading to the withdrawal of financial facilities. The ability of the Group to obtain waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and therefore the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

Directors

The directors of the company during the year were:

A S McNutt
A J Richards
M Rost
A Wiechkoske

Qualifying third party indemnity provisions

The company has arranged qualifying third party indemnity for all of its directors.

Hydraulic Authority III Limited

Directors' report for the year ended 31 March 2020

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 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 current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office.

On behalf of the Board



A Richards
Director

Date 7 October 2020

Hydraulic Authority III Limited

Independent auditor's report for the year ended 31 March 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HYDRAULIC AUTHORITY III LIMITED

Opinion

We have audited the financial statements of Hydraulic Authority III Limited ("the Company") for the year ended 31 March 2020 which comprise the Statement of comprehensive income, Balance sheet, Statement changes in equity, and the notes to the financial statements, 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 Financial Reporting Standard 102 *The Financial Reporting Standard 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 state of the Company's affairs as at 31 March 2020 and of its loss 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates that the company holds the group's facilities for which fellow group entities are cross guarantors and as a result of Covid -19 there may be a breach of covenants leading to the withdrawal of the financial facilities and repayment of shareholder loan notes. The ability of the group to obtain waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Hydraulic Authority III Limited

Independent auditor's report for the year ended 31 March 2020

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 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 and 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, 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.

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.

Hydraulic Authority III Limited

Independent auditor's report
for the year ended 31 March 2020

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.

BDO LLP

Jonathan Roberts (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

Date: 7 October 2020

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

Hydraulic Authority III Limited

Statement of total comprehensive income for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
Turnover		-	-
Administration expenses		(34,454)	(154,818)
Impairment of investment balances		(28,505,082)	-
Operating loss	3	(28,539,536)	(154,818)
Interest payable and similar charges	4	(8,648,516)	(1,362,291)
Dividend income	5	11,850,994	-
Loss on ordinary activities before taxation		(25,337,058)	(1,517,109)
Taxation on loss from ordinary activities	6	-	-
Loss on ordinary activities after taxation		(25,337,058)	(1,517,109)

All amounts relate to continuing activities.

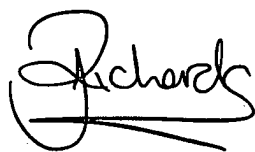
The notes on pages 15 to 24 form part of these financial statements.

Hydraulic Authority III Limited

Balance sheet at 31 March 2020

	Note	2020 £	2020 £	2019 £	2019 £
Fixed assets					
Investments	7		81,901,845		110,451,122
Derivative financial asset	8		28,608		-
			<u>81,930,453</u>		<u>110,451,122</u>
Current assets					
Cash at bank		1,962,318		-	
Debtors	9	<u>2,568</u>		<u>6,000</u>	
		1,964,886		6,000	
Creditors: amounts falling due within one year	10	<u>(59,735,419)</u>		<u>(62,982,296)</u>	
Net current liabilities			<u>(57,770,533)</u>		<u>(62,976,296)</u>
Total assets less current liabilities			24,159,920		47,474,826
Creditors: amounts falling due after more than one year	11		(51,014,086)		(48,991,934)
Net liabilities			<u>(26,854,166)</u>		<u>(1,517,108)</u>
Capital and reserves					
Called up share capital			¹		¹
Profit and loss account			(26,854,167)		(1,517,109)
Shareholders' deficit			<u>(26,854,166)</u>		<u>(1,517,108)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 7 October 2020



A J Richards
Director

Hydraulic Authority III Limited registered number 11686668

The notes on pages 15 to 24 form part of these financial statements.

Hydraulic Authority III Limited

Statement of changes in equity for the year ended 31 March 2020

	Share capital £	Profit and loss account £	Total equity £
As at 1 April 2018	-	-	-
<i>Comprehensive loss for the period:</i>			
Loss for the period	-	(1,517,109)	(1,517,109)
Loss and total comprehensive loss for the period	-	(1,517,109)	(1,517,109)
<i>Contributions by and distributions to owners:</i>			
Issue of share capital on incorporation	1	-	1
Total contributions by and distributions to owners	1	-	1
At 1 April 2019	1	(1,517,109)	(1,517,108)
<i>Comprehensive profit for the year:</i>			
Loss for the year	-	(25,337,058)	(25,337,058)
Loss and total comprehensive loss for the year	-	(25,337,058)	(25,337,058)
At 31 March 2020	1	(26,854,167)	(26,854,166)

The notes on pages 15 to 24 form part of these financial statements.

Hydraulic Authority III Limited

Notes forming part of the financial statements for the year ended 31 March 2020

1 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, and the Companies Act 2006.

Hydraulic Authority III Limited (the Company) is a company limited by shares, incorporated in United Kingdom under the Companies Act and is registered in England and Wales. The company's registered office address is shown in contents page. The nature of the company's operations and its principal activities are set out in the strategic report on pages 3 to 5.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies (see note 2).

Consolidated financial statements

The financial statements contain information about Hydraulic Authority III Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption conferred by section 400 of the Companies Act 2006 not to produce consolidated financial statements as it is included in the consolidated financial statements of its ultimate parent company, Hydraulic Authority I Limited.

FRS 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 for qualifying entities:

- Section 4 Statement of Financial Position paragraph 4.12(a)(iv) not to prepare a reconciliation of the number of shares outstanding at the beginning and end of the year.
- Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d) not to prepare a cash flow statement.
- Section 33 Related Party Disclosures paragraph 33.1A not to disclose related party transactions with other wholly owned members of the Hydraulic Authority I Limited Group.

The company's shareholders have been notified in writing about, and do not object to the use of, the disclosure exemptions. The company's results are included in the publicly available consolidated financial statements of Hydraulic Authority I Limited and these financial statements may be obtained from Companies House.

Going Concern

The company has borrowings which are secured by the net assets of its investment in Pirtek Europe Limited and its subsidiaries. Fellow companies within the Hydraulic Authority I Limited group of companies (The Group) are cross guarantors to these borrowings and therefore its liquidity is intrinsically linked with the performance of the Group, of which it is a member. The going concern of the company has therefore been assessed at the Group level.

In consideration of the Group's current resources and trading, access to funding if and as required, and review of financial forecasts and projections, the Directors have a reasonable expectation that the Group and therefore the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

In the period to the end of January 2020, prior to the emergence of the coronavirus pandemic in Europe, the Group's operations were performing in line with budget and ahead of the prior year. However, from late February through to May 2020, the pandemic negatively impacted the operating results of the Group and introduced uncertainty into our markets. Management and the directors were proactive to respond and support the franchisee network, which remained open for business throughout, and the Group has demonstrated

Hydraulic Authority III Limited

Notes forming part of the financial statements for the year ended 31 March 2020

1 Accounting policies (continued)

resilience in both operational performance and a strengthening of financial results. As at the date of approval of these financial statements, the impact of the coronavirus pandemic on the global landscape, and consequently the Group's trading, is continually evolving.

The resulting economic uncertainties have altered the risk environment, such that in the short to medium term, the key financial risks to the Group are considered as follows:

- reduction in end customer demand and as a result reduction in revenues and cash flows;
- franchisee settlement terms being extended, re-negotiated or certain debts being deemed irrecoverable;
- impact on service delivery from franchisee and own staff absence due to sickness;
- disruption to the supply chain and delivery of product to franchisees and end customers; and,
- supplier manufacturing facilities suffering from staff absence due to sickness or having enforced social distancing rules and the resultant impact on product supply.

Key mitigating actions that have been taken by the Directors include:

- cost control measures and accessing government payroll subsidies where available;
- supporting franchisees to access the grants and funding available;
- improved communication with and between franchisees so they can help each other maintain coverage in the event of staff sickness;
- our supply chain teams in different countries working closely together to move group stock between countries as appropriate and steps taken to increase franchisee stock of key products; and,
- holding higher stocks of certain items and maintaining dual sourcing of key products.

In consideration of the factors above, the management team have prepared a revised three year forecast, resetting expectations of operating revenues, profitability and cash flows. These cash flow forecasts are dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and existing longer term borrowing which ends in November 2025. These forecasts, in the base case, indicate that the Group will have sufficient funds from its existing facilities to meet its liabilities as they fall due.

The delivery of the forecasts, particularly to achieve the forecast growth, is subject to uncertainty. The downside scenario cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. In the event of a breach of covenant, the Group's bank borrowings which are held by the Company and for which cross guarantees are provided by subsidiaries of the Group, as well as its shareholder loan notes which are held by Hydraulic Authority II Limited, would become repayable on demand. If circumstances lead the Directors to believe a breach of covenants is likely, they will proactively engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The directors acknowledge that receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained. Also, with the Group's continued improvement in financial performance since the height of the European lockdown, if market conditions were to remain broadly similar to those faced now, the directors consider a breach would be significantly less likely.

Having reviewed the latest financial information and forecasts available, the Directors consider that the Group and Company will obtain the necessary support referred to above, if required, from its credit facility provider and shareholders and will continue as a going concern for a period of at least twelve months from the date of signing these financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

The directors acknowledge that the possible impact of the coronavirus on future trading, through a reduction in sales and cash flows caused by reduced demand, may cause a breach of covenants leading to the withdrawal of financial facilities. The ability of the Group to obtain covenant waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. These events and conditions indicate that a material uncertainty

Hydraulic Authority III Limited

Strategic report for the year ended 31 March 2020

1 Accounting policies (continued)

exists that may cast significant doubt on the Group and therefore the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

Finance costs

Finance costs are charged to the income statement over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument. Finance costs also include any decrease in fair value

Valuation of investments

Investments in subsidiaries are measured at cost, being the transaction price, less accumulated impairment.

Impairment of fixed assets

Assets are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment. Derivatives are carried at fair value with any changes in fair value recognised in the statement of comprehensive income in the other finance income or other finance costs line.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the group can control their reversal and such reversal is not considered probable in the foreseeable future.

Hydraulic Authority III Limited

Notes forming part of the financial statements for the year ended 31 March 2020

1 Accounting policies (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2 Significant judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these financial statements, the directors have made the following judgements:

- Determine whether there are indicators of impairment of the company's investment in the Pirtek Europe Limited group. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

During the year, the Directors have identified impairments of the company's investment balance (note 7). Calculating the value of this impairment requires the use of assumptions and estimates in order to arrive at a recoverable amount for the relevant cash generating units (CGU) to which the investment relates. In assessing the recoverable amount of the investment balance, two separate cash generating units were identified, one relating to Pirtek Sweden which operates under an owned model and the other relating the wider Pirtek Group. The key assumptions used in value-in use calculations are projected EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the projected period. EBITDA is based on past experience adjusted to take account of the impact of expected changes to sales volumes and margins. Cash flows are discounted at 10% and 12.4% across the Pirtek Sweden and wider Pirtek Group CGUs, and the company has probability weighted future forecast results to balance the likely impact on revenue growth of current uncertainties. Further key assumptions used in the market value calculation include assessing likely valuation multiples which are based on multiples achieved for similar businesses, adjusted for known differences. The determination of these assumptions and estimates results in key judgements in deciding the appropriate value of impairment to recognise. The directors appointed an independent firm of valuation experts to assist them in the valuation exercise.

- Allocation of the directly attributable costs between the various elements of the business combination. Factors taken into consideration in reaching this decision include the deal structure, the assets acquired and the liabilities assumed.

3 Operating loss

	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
This has been arrived at after charging:		
Impairment of investment	28,505,082	-
Fees payable to the company's auditor for the audit of the company's financial statements	3,958	4,500

Hydraulic Authority III Limited

Notes forming part of the financial statements
for the year ended 31 March 2020

4 Interest payable and similar charges

	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
Interest on bank loan	3,576,659	1,267,029
Other interest payable	4,613,090	38,576
Bank loan finance issue costs	458,767	56,686
	<u>8,648,516</u>	<u>1,362,291</u>

The company incurred £1,714,752 of finance issue costs as part of the arrangement of the bank loan associated with the business combination during the year ended 31 March 2019. These debt fees are to be amortised over the duration of the bank loan being 7 years, ending in 2025.

5 Dividend income

	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
Dividend income of 261 pence per share	<u>11,850,994</u>	<u>-</u>

Hydraulic Authority III Limited

Notes forming part of the financial statements
for the year ended 31 March 2020

6 Taxation on loss from ordinary activities

	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
<i>Current tax</i>		
UK corporation tax at 19% (2019 - 19%)	-	-

Reconciliation of current tax charge

The tax assessed for the year is different to the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2020 £	4 month period ended 31 March 2019 £
Loss on ordinary activities before tax	(25,337,058)	(1,517,109)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2019 - 19%)	(4,814,041)	(288,251)
Effects of:		
Expenses not deductible for tax purposes	5,582,096	2,127,808
Group dividend income	(2,251,689)	(1,838,132)
Group relief	1,483,634	(1,425)
Current tax charge for year	-	-

Hydraulic Authority III Limited

Notes forming part of the financial statements
for the year ended 31 March 2020

7 Fixed asset investments

	2020 Total £	2019 Total £
Investment in Pirtek Europe Limited	110,451,122	110,451,122
Adjustment to investment from capitalised legal fees	(44,195)	-
Investment impairment	(28,505,082)	-
	<u>81,901,845</u>	<u>110,451,122</u>

At 31 March 2020, mainly due to the impacts of coronavirus, the directors concluded that there were indicators of impairment relating the company's investment balance. The directors engaged an independent firm of valuation experts in order to perform an exercise to compare the carrying value of the cash generating units to which the investment balance relates, against their recoverable amounts and to determine whether there were impairments to be recognised. The completion of a valuation exercise includes the use of assumptions and estimates which are key judgements in determining overall recoverable amount (note 2). Recoverable amount was assessed as being less than carrying value and therefore impairment was identified and recognised at 31 March 2020.

Principal investments

The company directly or indirectly holds the share capital of the following subsidiary undertakings:

	Country of Incorporation	Class of share	% of share capital held	Nature of business
Directly owned				
Pirtek Europe Limited	United Kingdom	Ordinary	100%	Management
Indirectly owned				
Pirtek (UK) Limited	United Kingdom	Ordinary	100%	Trading
Pirtek BV	The Netherlands	Ordinary	100%	Trading
Pirtek (Deutschland) GmbH	Germany	Ordinary	100%	Trading
Pirtek Austria GmbH	Austria	Ordinary	100%	Trading
Pirtek Belgium bvba	Belgium	Ordinary	100%	Trading
Pirtek Brussels bvba	Belgium	Ordinary	100%	Trading
Pirtek Sweden AB	Sweden	Ordinary	100%	Trading
Pirtek Sweden Franchise AB	Sweden	Ordinary	100%	Non-Trading

Following a restructuring in March 2019 three of the group companies have been dissolved; Fast Pressure I Limited on 28 January 2020, Fast Pressure II Limited on 3 December 2019 and Pirtek Europe Holdings Limited on 3 December 2019.

The registered office of each of the company's subsidiaries is as follows:

Pirtek Europe Limited	The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS
Pirtek (UK) Limited	The Broadgate Tower Third Floor, 20 Primrose Street, London, United Kingdom, EC2A 2RS
Pirtek BV	Hongkongstraat 29, 3047 BR Rotterdam, The Netherlands
Pirtek (Deutschland) GmbH	Maarweg 165, 50825 Koln, Germany
Pirtek Austria GmbH	Hasperger Setz & Partner, Gonzagagasse 4, 1010 Wien, Austria
Pirtek Belgium bvba	Floralienlaan 21, 2600 Antwerpen, Belgium
Pirtek Brussel bvba	Avenue Newton 7, 1300 Wavre, Belgium
Pirtek Lummen bvba	Klaverbladstraat 16, 3560, Lummen, Belgium
Pirtek Sweden AB	Box 90, 182 07 Stocksund, Sweden
Pirtek Sweden Franchise AB	Box 90, 182 07 Stocksund, Sweden

Hydraulic Authority III Limited

Notes forming part of the financial statements
for the year ended 31 March 2020

8	Derivative financial asset	2020 £	2019 £
	Interest rate hedging instrument	28,608	-
9	Debtors	2020 £	2019 £
	Other taxation and social security	2,568	6,000
10	Creditors: amounts falling due within one year	2020 £	2019 £
	Trade creditors	47	12,000
	Amounts due to group subsidiaries	59,222,856	61,308,227
	Other accruals	7,146	325,581
	Bank loan interest accrual	5,370	836,488
	Bank loan	500,000	500,000
		59,735,419	62,982,296
11	Creditors: amounts falling due after more than one year	2020 £	2019 £
	Bank Loan	52,375,000	50,650,000
	Bank Loan finance issue costs	(1,360,914)	(1,658,066)
		51,014,086	48,991,934

On 21 November 2018, Hydraulic Authority III Limited, on behalf of the Group, borrowed funds from Golub Capital LLC of Chicago, Illinois U.S.A. under one term loan of £50,000,000 and agreed a revolving credit facility (RCF) of £5,000,000.

Both the term loan and the RCF balances accrue interest at the rate of LIBOR (with a minimum of 1%) plus a margin based on Total debt to EBITDA ratio as follows:

Total debt to EBITDA ratio	Margin
< 4.75 to 1.00	6.00%
< 4.75 to 1.00 but > 4.00 to 1.00	5.75%
< 4.00 to 1.00 but > 3.50 to 1.00	5.50%
< 3.50 to 1.00	5.00%

At year end the £49,375,000 loan and the RCF balance totalling £3,500,000 were outstanding and accruing interest at a rate of 7% per annum. A fee of 0.5% is payable on any unfunded amount on the RCF.

Hydraulic Authority III Limited

Notes forming part of the financial statements for the year ended 31 March 2020

11 Creditors: amounts falling due after more than one year (continued)

The term loan of £50,000,000 is repayable at a rate of 1% per annum in equal quarterly payments until the maturity date of 21 November 2025 when the remaining balance along with any outstanding balance on the RCF is repayable in full.

The bank loan is secured by a fixed and floating charge over the assets of the Group. Finance issue costs of totalling £1,714,752 comprises of £1,100,000 (£297,153 amortised in the period (2019 - £56,686)) and additional fees of £614,752 were incurred for the arrangement of the loans, have been offset against the liability and are being amortised over the term of the loan.

During the year under review, the company drew down £3,300,000 and repaid £950,000 under the revolving credit facility and repaid £625,000 towards the term loan to its lenders, Golup Capital LLC.

The maturity of sources of debt finance are as follows:

	Loans and overdrafts 2020 £	Loans and overdrafts 2019 £
In one year or less, or on demand	500,000	500,000
In more than one year but not more than two years	500,000	500,000
In more than two years but not more than five years	1,500,000	1,500,000
More than five years	50,375,000	48,650,000
	52,375,000	50,650,000
Issue costs to be amortised	(1,360,914)	(1,658,066)
	51,014,086	48,991,934

12 Share capital

	2020 £	2019 £
<i>Allotted, called up and fully paid</i>		
1 Ordinary share of £1 each	1	1

13 Contingencies

At 31 March 2020, the company has £52,875,000 in funded and £1,500,000 unfunded borrowings due to Golub Capital LLC, secured by the net assets of its investment in Pirtek Europe Limited and its subsidiaries. At the balance sheet date, and at the reporting date, Hydraulic Authority III Limited had fulfilled all of its obligations under the terms of the loan.

14 Related party

The company has taken advantage of the exemption under FRS 102 section 33 paragraph 1A from disclosing transactions with wholly owned group entities.

Hydraulic Authority III Limited

Notes forming part of the financial statements for the year ended 31 March 2020

15 Ultimate control party and immediate parent company

At 31 March 2020 the Company's immediate parent company was Hydraulic Authority II Limited, a company incorporated in the United Kingdom. Hydraulic Authority I Limited, also incorporated in the United Kingdom, is the ultimate parent company and the parent of both the smallest and largest groups of which the company is a member.

Copies of the consolidated financial statements of Hydraulic Authority I Limited are available from Companies House.

At 31 March 2020, PNC Capital Finance, LLC is considered ultimate controlling party.

16 Events after the Balance Sheet date

The coronavirus global pandemic was a condition in existence at the year-end date therefore it is regarded as an adjusting subsequent event. Since early 2020, the global Covid-19 coronavirus pandemic has adversely impacted demand for the Group's products, and as a result the Group's financial performance has been adversely impacted.

Management reacted promptly to the impact of the pandemic subsequent to the year end with a number of key short term actions across the business to preserve liquidity, which included accessing government payroll incentives and providing advice and guidance to its franchisees in order for them to preserve their liquidity and maintain service to end customers. Since May 2020 the Group's trading has continued to improve and covenant requirements for lending have been met.