HSS Financing plc

£136,000,000 6.75% Senior Secured Notes due 2019

Interim Report 6M 2017

For the 26 weeks ended 1 July 2017

30 August 2017

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Forward-looking statements

This interim report contains “forward-looking statements” within the meaning of the securities laws of certain jurisdictions, including statements under the captions “Summary”, “Risk factors”, “Operating and financial review”, “Industry”, “Business” and in other sections of this interim report. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes”, “could”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, “plans”, “continue”, “ongoing”, “potential”, “predict”, “project”, “target”, “seek”, “should” or “would” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this interim report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements. In addition, past performance of the Company cannot be relied on as a guide to future performance.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this interim report.

These factors include, among others, those discussed under “Risk Factors” in our Annual Report dated 5 April 2017. Our most recent Annual Report can be obtained from our corporate website, www.hsshiregroup.com/investor-relations/senior-secured-notes/.

These risks and others described under “Risk factors” are not exhaustive. Other sections of this interim report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this interim report and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this interim report. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this interim report. As a result, you should not place undue reliance on these forward-looking statements.

Certain definitions

Unless otherwise indicated or where the context otherwise requires, references to:

- "ABird" and "ABird Power Solutions" are to Abird Superior Limited and its wholly-owned subsidiary, Abird Limited, a provider of temporary power generation facilities and associated products and services, that we acquired on 31 October 2012;
- "All Seasons Hire" are to All Seasons Hire Limited, a specialist heating, ventilation and air-conditioning ("HVAC") hire company, that we acquired on 8 May 2015;
- "Apex" are to Apex Generators Limited, a specialist generator hire business operating primarily across Scotland, that we acquired on 31 March 2014;
- "Clearstream" are to Clearstream Banking, société anonyme;
- "Collateral" are to the security interests securing the obligations of the Issuer and the Guarantors under the Notes, the Note Guarantees and the Revolving Credit Facility Agreement;
- "Company" are to Hero Acquisitions Limited, a private company limited by shares incorporated under the laws of England and Wales;
- "EU" are to the European Union;
- "Euroclear" are to Euroclear Bank SA/NV;
- "Exponent" are to the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right;
- "Exponent Shareholders" are to Exponent Private Equity Partners GP II, LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited;
- "Group" are to the Company and its consolidated subsidiaries and subsidiary undertakings;
- "Guarantors" are to the entities guaranteeing the obligations of the Issuer under the Notes;
- "Hampshire Bidco" are to Hampshire Bidco Limited, an intermediate holding company which was renamed from Havana Bidco Limited to Hampshire Bidco Limited on 23 May 2014. Hampshire Bidco Limited is a wholly owned subsidiary of Hampshire Midco Limited;
- "Hampshire Midco" are to Hampshire Midco Limited, an intermediate holding company which was renamed from Havana Midco Limited to Hampshire Midco Limited on 23 May 2014. Hampshire Midco Limited is a wholly owned subsidiary of Hampshire Topco Limited;
- "Hampshire Topco" are to Hampshire Topco Limited, our parent company until 21 January 2015 when HSS Hire Group plc became the new holding company of Hampshire Topco and its subsidiaries through a share for share exchange. Havana Topco Limited was renamed Hampshire Topco Limited on 23 May 2014;
- "HSS", "our", "us" and "we" are to the Company and its direct and indirect subsidiaries;
- "HSS Hire Group plc" are to HSS Hire Group plc, our new parent company incorporated on 7 January 2015 as a private company limited by shares in the United Kingdom and re-registered as a public limited company on 19 January 2015. The ordinary share capital of HSS Hire Group plc was admitted to the premium listing segment of the Official List of the UK

Listing Authority and to trading on London Stock Exchange's main market for listed securities under the ticker "HSS" on 9 February 2015;

- "IFRS" are to the International Financial Reporting Standards as adopted by the EU;

- "Indenture" are to the indenture governing the terms of the Notes among, amongst others, the Issuer, the Guarantors and the trustee in respect of the Notes, dated the Issue Date;

- "Intercreditor Agreement" are to the intercreditor agreement amongst, inter alia, the Issuer, the Guarantors, the trustee in respect of the Notes, the security agent and the facility agent under the Revolving Credit Facility Agreement and the other parties named therein, dated on or about the Issue Date;

- "IPO" are to the initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's main market for listed securities under the ticker "HSS" on 9 February 2015;

- "Ireland" are to the Republic of Ireland;

- "Issue Date" are to 6 February 2014, the date on which the Notes were issued;

- "Issuer" are to HSS Financing plc, a wholly-owned subsidiary of the Company incorporated under the laws of England and Wales as a public limited company;

- "Note Guarantees" are to the senior secured guarantees of the Notes to be provided by all the Guarantors pursuant to the Indenture;

- "Notes" are to the Senior Secured Notes due 2019;

- "Notes Offering Memorandum" are to the legal document date 29 January 2014 within which the objectives, risks and terms of investment and other information relating to Notes was made available to qualified and eligible prospective investors;

- "Proceeds Loan" are to the loan agreement entered into between Issuer, as lender, and the Company, as borrower, pursuant to which the Issuer on-lent the proceeds of the Notes to the Company on the Issue Date;

- "Revolving Credit Facility" are to the revolving credit facility made available pursuant to the Revolving Credit Facility Agreement;

- "Revolving Credit Facility Agreement" are to a revolving credit facility agreement governing a £60.0 million super senior revolving credit facility dated 30 January 2014;

- "Reorganisation Deed" are to the reorganisation deed between (among others) the HSS Hire Group plc, Hampshire Topco Limited, certain subsidiaries of Hampshire Topco Limited, Exponent Private Equity Partners GP II, LP, Exponent Havana Co-Investment Partners GP Limited, ESP 2006 Conduit LP, ESP 2008 Conduit LP, Exponent Private Equity Founder Partner GP II Limited and the executive directors of HSS Hire Group plc

- "SEC" are to the U.S. Securities and Exchange Commission;

- "Subordinated Shareholder Loans" are to the intercompany loans described in "Description of other indebtedness—Subordinated shareholder loans";

- "TecServ" are to TecServ Cleaning Equipment Services Limited (formerly, Premiere FCM Limited), a specialist provider of cleaning equipment services, that we acquired on 22 November 2013;

- “UK GAAP” are to accounting practices generally accepted in the United Kingdom;
- “United States”, “US” and “U.S.” are to the United States of America;
- “U.S. Exchange Act” are to the U.S. Securities Exchange Act of 1934, as amended;
- “U.S. GAAP” are to accounting principles generally accepted in the United States;
- “UK” are to the United Kingdom;
- “UK Platforms” are to UK Platforms Ltd and its subsidiary, Access Rentals (UK) Limited, a provider of electric and diesel powered access products. We acquired UK Platforms on 28 June 2013; and
- “U.S. Securities Act” are to the U.S. Securities Act of 1933, as amended.

Presentation of financial and other information

IFRS financial information

The historical and other financial information presented in this interim report have primarily been derived from the historical consolidated financial statements of the Company, which are included elsewhere in this interim report. The Issuer was incorporated under the laws of England and Wales on 10 January 2014 and is a wholly-owned finance subsidiary of the Company. The Issuer has no material assets or liabilities other than those related to the Notes, the Proceeds Loan and the Revolving Credit Facility. Consequently, we have not provided herein financial statements for the Issuer.

Our consolidated financial statements as at and for the 27 week period ended 2 July 2016 and the 26 week period ended 1 July 2017 are presented in accordance with IFRS. The results of operations for prior years are not necessarily indicative of the results to be expected for the full year or any future period.

As disclosed in the Notes Offering Memorandum and in the Prospectus produced for the IPO of HSS Hire Group plc dated 22 January 2015, from time to time, our fiscal year accounting period covers a 53 week period. The 53 week period ending 31 December 2016 was the first 53 week period we have reported on since 2009. The 53rd week is taken within Q1 of the reporting year to re-align quarter ends more closely with month ends. As a result January 2016 had 5 weeks, February 2016 had 4 weeks and March 2016 had 5 weeks, whereas for all other quarters we have reported on a 4 week, 4 week then a 5 week basis respectively for the three months in a reporting quarter. Results for H1 16 are therefore presented for a 27 week period, as previously reported, whilst the results for H1 17 are presented for a 26 week period. This will impact the direct comparability of results through the year.

The Company gave notice that it had elected to apply IFRS in lieu of UK GAAP to its financial statements starting with the 52 weeks ended 27 December 2014 in accordance with Section 1.01 and Section 4.02 of the indenture governing the Notes on 15 April 2015.

We have not included financial information prepared in accordance with UK GAAP or US GAAP in this interim report. IFRS differs in certain significant respects from US GAAP. You should consult your own professional advisors for an understanding of the differences between IFRS, UK GAAP and US GAAP, and how those differences could affect the financial information contained in this interim report.

References in this interim report to “pound”, “pound sterling”, “UK pound” or “£” are to the lawful currency of the United Kingdom. The financial information and financial statements included in this interim report are presented in pound sterling.

Certain numerical figures included in this interim report have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

Non-IFRS financial information

In addition to IFRS financial information, we have included certain non-IFRS financial measures and adjustments in this interim report, including Adjusted EBITA, EBITDA, Adjusted EBITDA, third-party debt, net third-party debt, capital expenditure and certain other financial measures and ratios. Non-IFRS financial measures are not required by or presented in accordance with IFRS. We have defined below each of the non-IFRS earnings measures and earnings adjustments that we have used in this interim report.

EBITDA based measures:

- “*Adjusted EBITA*” represents our Adjusted EBITDA (as defined herein) less depreciation;
- “*Adjusted EBITDA*” represents EBITDA adjusted to remove the effects of certain exceptional costs, which we believe are not indicative of our underlying operating performance; and

- "*EBITDA*" represents income or loss for the financial period before interest payable and similar charges, interest receivable and similar income, tax on ordinary activities, loss or profit on sale of fixed assets and depreciation and amortisation.

For reconciliations of these EBITDA-based measures, see "Summary consolidated financial and other data".

Other non-IFRS measures:

- "*capital expenditure*" represents additions to our tangible fixed assets during the applicable periods as set forth in the notes entitled "Tangible Fixed Assets" to our financial statements included in this interim report;

- "*net third-party debt*" means total third-party debt (as defined below) less cash;

- "*return on assets*" is calculated by dividing Adjusted EBITA by the aggregate of average total assets (excluding intangible assets) for the period less average current liabilities (excluding amounts due to group undertakings) for the period. Average total assets and average current liabilities have been calculated based on the arithmetical average of the opening and closing balance sheet positions of assets and liabilities, respectively, for the applicable period; and

- "*third-party debt*" consists of (i) bank loans and other borrowings excluding debt issue costs, (ii) bank overdrafts, (iii) obligations under our finance leases and (iv) accrued interest.

We have presented these non-IFRS financial measures (1) as they are used by our management to monitor and report to our board members on our financial position for outstanding debt and available operating liquidity and (2) to represent similar measures that are widely used by certain investors, securities analysts and other interested parties as supplemental measures of financial position, financial performance and liquidity. We believe these measures enhance the investor's understanding of our indebtedness and our ability to fund our ongoing operations, make capital expenditure and our ability to meet and service our obligations.

However, these non-IFRS financial measures are not measures determined based on UK GAAP, IFRS, US GAAP or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial position or other indicators of our cash flow and forward position based on IFRS measures. The non-IFRS financial measures, as defined by us, may not be comparable to similarly titled measures as presented by other companies due to differences in the way our non-IFRS financial measures are calculated. The non-IFRS financial information contained in this interim report is not intended to comply with the reporting requirements of the SEC and will not be subject to review by the SEC. Even though the non-IFRS financial measures are used by management to assess our financial position and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our position or results as reported under IFRS or UK GAAP.

Recent developments

On 1 June 2017 Steve Ashmore joined HSS Hire Group plc as Chief Executive Officer.

Steve brings considerable leadership experience and consistent delivery of growth and value in a range of industries complementary to HSS including building products supply, logistics and distribution. Steve previously held a number of senior roles at Exel, the supply chain and third party logistics provider, before working in a number of senior leadership positions, including UK Managing Director, at Wolseley, the £2.0bn revenue distributor of plumbing and heating products and supplier of building materials. More recently he was the UK Managing Director of Brammer, the specialist distributor of industrial products.

Steve was previously a director of Brammer plc, now Brammer Limited following its delisting in February 2017, and resigned on 19 October 2016. The Company confirms there is no additional information required to be disclosed pursuant to Listing Rule 9.6.13.

Summary consolidated financial and other data

The following tables present our summary historical consolidated financial information and other data for the periods ended and as at the dates indicated below.

Historical consolidated financial and other data presented in accordance with IFRS

The historical consolidated income statement, balance sheet and cashflow data as at and for the 27 week period ended 2 July 2016 and as at and for the 26 week period ended 1 July 2017 presented below have been extracted or derived from the unaudited consolidated financial statements of the Company as at and for the 27 week period ended 2 July 2016 and as at and for the 26 week period ended 1 July 2017, including the related notes thereto, which are included elsewhere in this interim report.

The results of operations and other financial and operating information for prior interim periods are not necessarily indicative of the results to be expected for the full year or any future period. This financial information should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this interim report and discussed in "Presentation of financial and other information", and "Operating and financial review".

	27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
(in millions of £)	**(unaudited)**	**(unaudited)**
Consolidated income statement data:		
Revenue	**166.2**	**160.5**
Cost of sales	(72.7)	(76.0)
Gross profit	**93.5**	**84.5**
Distribution costs	(21.8)	(23.4)
Administrative expenses	(71.2)	(83.5)
Other operating income	0.5	0.5
Operating profit / (loss)	**1.0**	**(21.8)**
Finance income [(1)]	3.4	3.7
Finance expense[(2)]	(21.4)	(22.3)
Loss before tax	**(16.9)**	**(40.4)**
Income tax expense	(0.7)	(0.5)
Loss for the financial period	**(17.6)**	**(40.9)**

	As at 2 July 2016	**As at 1 July 2017**
	(unaudited)	**(unaudited)**
(in millions of £)		
Consolidated balance sheet data:		
Intangible fixed assets	154.9	155.0
Tangible fixed assets	187.7	161.9
of which: materials and equipment held for hire	*144.0*	*125.6*
Deferred tax assets	1.3	0.5
Non-current assets	65.4	72.2
Current assets	119.8	121.6
of which: trade receivables	*73.5*	*73.7*
Cash	*1.4*	*7.0*
Total assets[(3)]	**529.0**	**511.3**
Current liabilities	(163.8)	(163.0)
of which: trade payables	*(44.5)*	*(43.6)*
Non-current liabilities	(447.5)	(487.0)
of which: provisions for liabilities and charges	*(13.2)*	*(13.9)*
Net liabilities	**(82.3)**	**(138.6)**

	27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
(in millions of £)	**(unaudited)**	**(unaudited)**
Consolidated cash flow data:		
Net cash flows from operating activities before changes in hire equipment	**15.9**	**14.1**
Purchase of hire equipment	(14.1)	(11.9)
Cash generated from operations	**1.9**	**2.3**
Net interest paid	(6.4)	(6.9)
Income tax paid	(0.7)	(0.2)
Net cash utilised in operating activities	**(5.2)**	**(4.8)**
Net cash used in investing activities	(8.0)	(4.1)
Net cash received from financing activities	13.3	13.4
Increase in cash	**0.0**	**4.5**

	As at and for the 27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
	(unaudited)	**(unaudited)**
(in millions of £, except for percentages and ratios or unless otherwise noted)		
Other operating metrics:		
Number of trading branches[(4)]	332	264
Average revenue per trading branch (in '000 of £)[(5)]	512	582
Other historical financial data:		
Third-party debt[(6)]	241.0	237.7
Cash	1.4	7.0
Net third-party debt[(7)]	239.6	230.7
Capital expenditure[(8)]	26.3	13.9
EBITDA[(9)]	25.5	4.6
Adjusted EBITDA[(10)]	32.5	17.3

(1) Includes interest income related to our Subordinated Shareholder Loans.

(2) Includes interest expense related to our Subordinated Shareholder Loans, as well as interest payable on the Senior Secured Notes and under our prior senior facilities agreements.

(3) Represents the aggregate of our intangible fixed assets, tangible fixed assets, deferred tax assets, derivative financial instruments and current and non-current assets.

(4) Number of trading branches is given at the end date of the period, and does not include our "dark" stores. As at 1 July 2017 we held leases to 122 "dark" stores, which are our closed branches awaiting disposal, of which approximately 30% are either fully or partially sublet.

(5) Average revenue per trading branch represents the management account revenue for the relevant period divided by the average number of trading branches in operation during that period. Since 1 January 2017 revenue in our management accounts has been reported net of rebates and credit notes (consistent with statutory reported revenue), revenue figures for the prior year are therefore restated on the same basis.

(6) We define third-party debt as debt from our (i) bank overdrafts, (ii) revolving credit facilities (iii) obligations under our finance leases (iv) accrued interest, (v) term loans excluding debt issue costs, and (vi) senior secured notes gross of debt issue costs.

The following table presents the breakdown of our total third-party debt for the periods indicated.

	As at	
	2 July 2016	**1 July 2017**
	(unaudited)	**(unaudited)**
(in millions of £)		
Bank overdraft	1.1	-
Revolving credit facility	67.0	68.5
Obligations under finance leases	33.0	29.3
Accrued interest	3.9	3.8
Senior secured note	132.7	133.7
Debt issue costs	3.3	2.3
Total third-party debt	**241.0**	**237.7**

(7) We define net third-party debt as third-party debt less cash.

(8) Capital expenditure represents additions to our tangible fixed assets during the applicable periods as set forth in the notes entitled "Tangible Fixed Assets" to our financial statements included in this interim report.

(9) We define EBITDA as income or loss for the financial period before interest payable and similar charges, interest receivable and similar income, tax on ordinary activities, loss or profit on sale of fixed assets and depreciation and amortisation.

In evaluating EBITDA, you should be aware that, as an analytical tool, EBITDA is subject to certain limitations. See "Presentation of financial and other information—Non-IFRS financial information". EBITDA is not a measure of performance under IFRS and you should not consider EBITDA as an alternative to (a) operating profit or net profit for the period as a measure of our operating performance, (b) net cash flows from operating activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS.

The following table provides a reconciliation of EBITDA to income (loss) for the periods indicated:

	27 week period / 26 week period ended	
	2 July 2016[(1)]	**1 July 2017**
	(unaudited)	**(unaudited)**
(in millions of £)		
Profit/(loss) for the financial year	(17.6)	(40.9)
Income tax (credit)/expense	0.7	0.5
Finance expense	21.4	22.3
Finance income	(3.4)	(3.7)
Depreciation, amortisation and disposals and write offs..	24.4	26.5
EBITDA...	**25.5**	**4.6**

(10) We define Adjusted EBITDA as EBITDA adjusted to remove the effects of certain exceptional costs, which we believe are not indicative of our underlying operating performance. Adjusted EBITDA is not a measure of performance under IFRS and you should not consider Adjusted EBITDA as an alternative to (a) operating profit or net profit for the period as a measure of our operating performance, (b) net cash flows from operating activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS.

In evaluating Adjusted EBITDA, you should be aware that, as an analytical tool, Adjusted EBITDA is subject to certain limitations. See "Presentation of financial and other information—Non-IFRS financial information". In addition, you should be aware that we are likely to incur expenses similar to the adjustments in this presentation in the future and that certain of these items could be considered recurring in nature. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. For further information, see the discussions on exceptional items in our financial statements included elsewhere in this interim report.

The following table provides a reconciliation of Adjusted EBITDA to EBITDA for the periods indicated:

	27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
	(unaudited)	**(unaudited)**
(in millions of £)		
EBITDA..	**25.5**	**4.6**
Exceptional costs (non-finance)[(a)]	7.0	12.6
Adjusted EBITDA..................................	**32.5**	**17.3**

(a) Our net exceptional costs include certain transaction, restructuring and redundancy costs. During the 26 week period ended 1 July 2017 the Group incurred net exceptional costs of £12.6m (27 week period ended 2 July 2016: £7.0m) in relation to the restructuring of the business and its operations. Of the £12.6m net exceptional costs incurred in 2017, £5.0m related to onerous leases on non-trading stores, £6.2m related to impairment of related fixed assets, £2.0m related to a cost reduction plan and £0.5m related to sub-let rental income on onerous leases. Of the net £7.0m incurred in 2016, £5.9m related to set-up costs of the NDEC, and £0.1m related to the cost reduction plan. The balance of these costs principally related to onerous leases on non-trading stores, totalling £1.3m for the 27 week period ended 2 July 2016. Non-trading stores which are awaiting disposal were mainly closed as part of restructuring and efficiency improvement programmes undertaken between 2004 and 2008, although a further 18 branches were closed within 2016, and 50 branches were closed in the 26 week period ended 1 July 2017. These costs are primarily made up of lease expenses, as well as upfront costs of lease surrenders where we have chosen to reduce the ongoing exposure under leases in exchange for an upfront termination payment. For more information on operating lease commitments related to our "dark" stores, see "Operating and financial review—Contractual obligations". Redundancy costs consist of severance and related costs associated with the rationalisation of our operations. EBITDA and exceptional costs above do not include exceptional costs relating to our interest payable. For more information on our exceptional costs, see note (3) of our financial statements included elsewhere in this interim report.

Risk factors

For risks related to our business, financial profile and structure and the Notes, please see the risk factors disclosed in our latest Annual Report dated 5 April 2017. We believe there have been no material changes to these risk factors in this financial period.

Operating and financial review

The historical consolidated profit and loss account and cash flow data presented in this discussion and analysis for the 27 week period ended 2 July 2016 and the 26 week period ended 1 July 2017, has been extracted or derived from the unaudited consolidated financial statements of the Company as at and for the 27 week period ended 2 July 2016 and as at and for the 26 week period ended 1 July 2017, including the related notes thereto, which are included elsewhere in this interim report.

The following discussion should be read together with, and is qualified by reference to, our financial statements, and the related notes thereto, included in this interim report. The following discussion should also be read in conjunction with the sections entitled "*Summary consolidated financial data*"*. Except for the historical information contained herein, the discussions in this section contain forward-looking statements that reflect our plans, estimates and beliefs and involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this interim report, particularly in* "*Forward-looking statements*" *and* "*Risk factors*"*.*

Some of the measures used in this discussion and analysis are not measurements of financial performance under IFRS, but have been prepared on the basis of IFRS amounts, and should not be considered an alternative to cash flow from operating activities, as a measure of liquidity or an alternative to operating profit/(loss) or profit/(loss) for the period as indicators of our operating performance or any other measures of performance derived in accordance with IFRS.

Key factors affecting our results of operations

We consider the following factors to be the key factors affecting our results of operation:

Customers

Our revenue and cash flows are affected by our ability to retain existing business and generate new business from existing and new customers, and the terms at which we are able to retain or generate business. We have developed a strong reputation as a leading service provider in the United Kingdom and Ireland and this visibility and reputation, combined with our existing customer base, gives us a strong platform from which to win new business. Additionally, our extensive offering enables us to cross sell our core and specialist products and services to our customers allowing us, we believe, to meet their requirements to a greater extent.

We believe that a strong relationship with customers can lead to increased revenue and account profitability. Because of the generally flexible nature of our business arrangements with our customers, the factors that influence the terms on which we retain business from our existing customers are the same factors that influence the terms on which we win new business. We have won new customers and been successful in maintaining the loyalty of our existing customers by capitalising on our knowledge of our customers' requirements and processes together with our ability to offer value added services. These include equipment maintenance and management and the integration of our IT systems with the internal ordering and billing systems of certain of our large customers, thereby also enabling them to reduce their administrative costs. Due to our size and scale combined with our reputation for consistency and high levels of service, we have also been able to collaborate with some of our customers to develop an innovative supply chain model whereby our customers promote us as a preferred supplier to their sub-contractor base. We have successfully implemented this model with some of our leading customers including Sainsbury's and Heathrow Airports Limited.

In any period, the mix of our customers also impacts our results of operation. Our customers range from our key accounts, who typically represent our higher volume customers with recurring hire needs, to our local cash customers, who typically represent our higher margin customers. Our strategy over the last several years has been to increase the proportion of our revenue derived from our key accounts, which has helped us achieve higher sales volumes although at slightly lower margins. A number of our key account customers have been with us for over 15 years. By continuing to increase our key account customer base, we have been able to achieve repeat business as these customers tend to remain loyal to providers, like us, which provide consistently high levels of service.

Trends in customer demand also impact our financial results. Our largest revenue source is hire revenue, which represents payments received from our customers in return for their use of our equipment. We also generate revenues from our rehire activities primarily through our HSS OneCall operations. Unlike under our hire operations, under our rehire operations, we incur third-party supplier costs in connection with the procurement of tool and equipment for rehire. As a result, our rehire operations typically deliver lower EBITDA margins than our hire operations. On the other hand, we do not incur capital expenditure in respect of supply of equipment under our rehire operations which, in comparison to our hire operations, typically generate higher cash flows. As a result, if customer demand for our hire products increases in a particular period, we would typically generate higher EBITDA margins. On the other hand, if customer demand for our rehire products increases in a particular period, we would generate lower EBITDA margins during that period, although we may benefit from higher cash flows during that period. We have also grown our market share and customer base by penetrating new and attractive market segments with no or low levels of penetration by equipment hire companies (for example, the cleaning and ground care segments).

Availability

We believe that the availability of our hire tools and equipment is a key driver of our sales. We have focused on increasing availability in terms of the range of products that we offer and in terms of speed of delivery. In terms of the range of products that we offer, we seek to ensure that our hire fleet comprises equipment in sufficient quantities to meet demand. We manage this through ongoing assessment of the quantity of equipment on hire, future orders placed by customers, quantity of our offline equipment (i.e., equipment awaiting test or repair), prevailing levels of equipment write off and customer loss, and any rehire opportunities. If we identify a shortfall in our hire fleet, we procure additional equipment to add to our hire fleet. Our broad product range has historically enabled us to attract repeat business from our existing customers and maintain customer loyalty. In terms of delivery, we increase the availability of our hire fleet through our ability to respond promptly to customer orders. We constantly monitor stock levels to ensure that our equipment is well distributed throughout our branch network to meet customer demand. Where we identify a potential shortfall, our hub and spoke distribution model allows us to move equipment efficiently within twenty four hours across our network. As a result, our branch network allows us to share a floating inventory of hire stock between our locations and, in turn, drives increases in availability. We have also continued to complement the internal sourcing of the tools and equipment required by our customers with the external sourcing of products from third parties through our HSS OneCall business.

Availability of our hire stock also impacts our utilisation rates. We measure utilisation as the percentage of available time that an item of hire stock is out on hire. As demand for our products approaches available supply, our utilisation rates rise, which favourably impacts our revenues, profitability and return on assets. We are led by trends in customer demand in planning our hire fleet and in organising the supply and delivery of equipment to our customers. Our approach to expenditure on hire fleet has centred on retaining sufficient flexibility in response to customer demand. This approach has enabled us to deliver an industry-leading return on assets.

Pricing

We devote considerable attention to the pricing of our products and services. We typically set prices for our products as a discount to list prices as is standard in our industry. While offering lower discounts to our customers can result in higher margins for us, it can also prompt some of our customers to move their business to a competitor. In order to find a balance between optimising our margins and retaining our customer base, we have developed a structured and disciplined approach to pricing. In the first instance, we agree a set of prices with our customers which are recorded in our operating system. In general, longer term contracts are offered lower prices and higher discounts than short term contracts. As a result, our key and regional customers typically benefit from better pricing terms owing to volume discounts and the longer term nature of their contracts. We maintain a strict scrutiny of and closely track the discounts that we offer. We have also developed a clear hierarchy of authority within our company for the approval of discounts based on the importance and revenue contribution of the customer. All of these measures have helped us to maintain a strong pricing discipline, which we believe enables us to maximise our margins. While price remains a key factor, we believe that the availability and quality of our hire fleet and our high service levels are stronger drivers of our financial performance.

Operational productivity and efficiency

Our competitiveness and long term profitability depend, to a significant degree, on our ability to control costs (including costs of rehire and resale, distribution, labour and stock maintenance), capital expenditures and working capital, and maintain efficient operations. We implement various initiatives designed to reduce costs and working capital needs on a continual basis in order to optimise our profitability and cash flow generation.

This strategy to achieve operational excellence is supported by our investment in processes and technologies that enable us to operate our business in a more efficient manner. For example, we have recently introduced a workplace management system to plan and monitor employee rotas and work shift assignments, to maximise the efficiency of our employees. We have continued to improve our distribution network, constantly adjusting delivery vehicle capacity at each of our distribution centres to increase the number of deliveries and collections achieved per vehicle. We have also recently implemented a new management process for the spare parts that we require to maintain our tools and equipment, which is expected to significantly shorten the lead time required for obtaining these spare parts. We expect that this process will continue to improve the productivity of our maintenance personnel, while also increasing the speed at which equipment can be made available, thereby reducing the amount of capital tied up in equipment that is awaiting test or repair.

In addition to these initiatives, we are focused on inventory management and capacity utilisation, while continuing to control levels of capital expenditure and working capital.

Acquisitions

From time to time, we acquire providers of hire fleets and specialist services that complement our current offering to broaden the range of our hire products and services and increase our presence in existing and new markets, which impacts our financial performance. Through our strategic acquisitions, we believe we have historically been able to increase our capacity and make available to our customers a more expansive and comprehensive range of hire products and services.

Seasonality and cyclicality

The seasonality and cyclicality of the equipment rental industry results in variable demand for our products. We typically experience higher demand between July and November of each year and, as a result, we tend to generate slightly higher revenues during the second half of each fiscal year as compared to the first half of the year. We typically experience a slowdown in demand during Christmas, which partially offsets the increase in our revenues during the second half of the year. We also experience seasonality impacts as a result of the nature of our hire fleet and the distribution of our product categories. A small proportion of our product categories are in demand during different times of the year. Lighting and heating equipment, for instance, typically experience higher levels of demand during the winter season, while gardening and landscaping products experience higher levels of demand in the spring and summer seasons. Weather patterns can exacerbate these trends with particularly cold, hot or wet periods driving higher or lower demand among our product categories.

Due to our focus on the “maintain” and “operate” markets as opposed to the “new build construction” market, our revenue and operating results are not significantly dependent on activity in the commercial construction industry in the United Kingdom. As a result, our operations are not materially impacted by cyclical trends experienced in the “new build construction” market.

Currency translation

Our reporting currency is the pound sterling. However, a small proportion of our assets, liabilities, revenues and costs are denominated in euros. For the 26 week period ended 1 July 2017, we generated approximately 8.5% of our revenue in euros. Fluctuations in the value of the euro with respect to the pound therefore have had, and may continue to have, an impact on our financial condition and results of operations as reported in pounds.

Liquidity and capital resources

Toward the end of the 2014 financial year, we commenced work on the initial public offering of the newly incorporated ultimate parent company of Hero Acquisitions Limited, HSS Hire Group plc.

HSS Hire Group Limited was incorporated as a private company limited by shares in the United Kingdom on 7 January 2015 and re-registered as a public limited company (HSS Hire Group plc) on 19 January 2015.

On incorporation the share capital of HSS Hire Group Limited was £50,001 divided into 1 ordinary share of £1.00 each and 50,000 redeemable preference shares of £1.00 each.

Pursuant to the Company entering into a Reorganisation Deed on 21 January 2015 HSS Hire Group plc replaced Hampshire Topco Limited as the holding company of Hampshire Topco Limited and its subsidiaries, immediately following determination of the Offer Price on 3 February 2015, through a share for share exchange.

As part of the reorganisation, Exponent and the Exponent shareholders, the holders of shareholder loan notes in Hampshire Midco, transferred all of their interests in the loan notes to Hampshire Topco Limited in consideration for the issue of ordinary shares in Hampshire Topco Limited. Such shares in Hampshire Topco Limited were subsequently exchanged for shares in HSS Hire Group plc as part of the reorganisation. Immediately following the determination of the Offer Price on 3 February 2015, an aggregate loan note balance of approximately £86,000,000 was converted into ordinary shares. In addition, at the same date, the 50,000 preference shares were redeemed.

The initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's main market for listed securities under the ticker "HSS" occurred on 9 February 2015.

Following the IPO in February 2015 we used approximately £89.0 million of the IPO proceeds of the primary equity offering to reduce net third party debt in the Company and its subsidiaries. The main reduction in third party net debt was the repayment of £64.0 million of the principal amount of the Notes on 12 February 2015 together with a redemption premium and accrued interest on the repaid portion of the Notes of approximately £4.5 million. As at 25 May 2016 the outstanding principal amount of Senior Secured Notes is therefore £136.0 million.

A further £20.5 million of the IPO proceeds was used to repay amounts drawn under the revolving credit facility. These repayments were made during February 2015.

Capital Restructuring

The above-mentioned IPO was completed in February 2015. As part of the IPO process, the Company passed special resolutions giving effect to the capital reorganisation outlined in the consolidated statement of changes in equity.

On 9 February, the Group, its ultimate parent company and its previous ultimate parent company executed a number of board approved loans, which allowed the Group to discharge existing loans as well as to effect the early redemption of £64.0 million of the Notes.

On 10 February, the following intra group dividends were paid in full from distributable reserves:

- HSS Hire Service Group Limited paid an interim 2015 dividend of £8.5 million to its immediate parent company, HSS Hire Service Finance Limited;

- HSS Hire Service Finance Limited paid an interim 2015 dividend of £83.5 million to its immediate parent company, HSS Hire Service Holdings Limited;

- HSS Hire Service Holdings Limited paid an interim 2015 dividend of £80.6 million to its immediate parent company, Hero Acquisitions Limited; and

- Following the capital reorganisation of Hero Acquisitions Limited, it paid an interim 2015 dividend of £26.5 million to its immediate parent company, Hampshire Bidco Limited.

No further dividend payments have been declared or made by either the Group or its parent undertakings during the relevant period.

Description of key income statement items

Revenue

Revenue represents amounts receivable in respect of goods and services supplied, reduced by trade discounts that we offer and excluding value added tax. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, rebates, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured when it is probable.

Cost of sales

Cost of sales represents direct costs incurred in the provision of our services including, among others, costs of:

- hiring equipment from third parties, which is then rehired to our customers;

- resale, representing the purchase cost of diesel and gas supplied to our customers, other hire related consumables and any other items purchased and subsequently resold to our customers;

- customer training courses operated by third parties on our behalf;

- depreciation of our hire fleet; and

- stock maintenance, representing the costs associated with the testing and repair of our hire fleet.

Administrative expenses

Administrative expenses represent the overhead costs of the business, including:

- branch based costs such as costs associated with our sales employees, rent and business rates, depreciation (other than of hire fleet) and utilities;

- costs associated with our field based sales employees;

- costs associated with our customer contact centre including the cost of salaries, rent and utilities;

- the cost of our head office functions including those of our IT, finance, human resource functions; and

- amortisation of goodwill arising from acquisitions.

Exceptional items classified as administrative expenses relate primarily to the costs of our “dark” stores (unoccupied properties), which we do not use and which do not generate rental income through sublet or otherwise. They also relate to certain of our restructuring costs.

Distribution costs

Distribution costs represent the costs associated with the operation of our delivery vehicle fleet such as the cost of lease, fuel and insurance, and the payment of salaries to the drivers that we employ. It also represents the costs associated with third-party haulage and freight. Exceptional items classified as distribution costs relate primarily to certain of our restructuring costs.

Other operating income

This represents rental income earned through the sublet of properties that are surplus to our requirements. The operating costs associated with these sublet properties are treated as an ongoing item (not an exceptional item) under our administrative expenses.

Finance expense

Finance expense represents the charges (accrued or paid) associated with our bank loans and overdrafts, loans from our parent companies and finance leases. This line item also represents the amortisation of any costs associated with the raising of finance that have been capitalised and spread over the life of the facility. Costs classified as exceptional relate to costs incurred in the early termination of our financing instruments such as our interest rate swaps.

Income Tax credit / (expense)

Tax is based on the results for the accounting period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting periods.

Results of operations

The 26 week period ended 1 July 2017 compared to the 27 week period ended 2 July 2016

The table below sets out our results for the 26 week period ended 1 July 2017 compared to the 27 week period ended 2 July 2016:

	27 week period / 26 week period ended		
	2 July 2016	**1 July 2017**	**Percentage change**
	(unaudited)		
(in millions of £)			
Revenue	**166.2**	**160.5**	**(3.4%)**
Cost of sales	(72.7)	(76.0)	4.5%
Gross profit	**93.5**	**84.5**	**(9.6%)**
Distribution costs	(21.8)	(23.4)	7.3%
Administrative expenses	(71.2)	(83.5)	17.3%
Other operating income	0.5	0.5	-
Operating profit / (loss)	**1.0**	**(21.8)**	**NM(1)**
Finance income	3.4	3.7	8.8%
Finance expense	(21.4)	(22.3)	4.2%
Loss before tax	**(16.9)**	**(40.4)**	**NM(1)**
Income tax expense	(0.7)	(0.5)	NM(1)
Loss for the financial period	**(17.6)**	**(40.9)**	**NM(1)**

(1) Not meaningful

Revenue

Our revenue for the 26 week period ended 1 July 2017 decreased by £5.7 million, or 3.4%, from £166.2 million in the 27 week period ended 2 July 2016 to £160.5 million in the 26 week period ended 1 July 2017. Our Services businesses (mainly HSS OneCall and HSS Training) continued to grow strongly up 10.1% compared to the prior year; however our Rental revenues were down 7.3% year on year. This reflects the inclusion of an additional week of trading in 2016 (27 weeks compared with 26 weeks), the impact of operational disruption on our local and regional customers through FY16 and a total of 71 branch closures across Q4 16 and H1 17.

Cost of sales

Our cost of sales for the 26 week period ended 1 July 2017 increased by £3.3 million, or 4.5%, from £72.7 million in the 27 week period ended 2 July 2016 to £76.0 million in the 26 week period ended 1 July 2017. This is driven by increased depreciation charges and continued growth in HSS OneCall (rehire) revenue and the associated third-party supplier costs, partially offset by savings in our stock maintenance costs during Q2.

Gross profit

Our gross profit for the 26 week period ended 1 July 2017 decreased by £9.0 million, or 9.6%, from £93.5 million in the 27 week period ended 2 July 2016 to £84.5 million in the 26 week period ended 1 July 2017.

Distribution costs

Our distribution costs for the 26 week period ended 1 July 2017 increased by £1.6 million, or 7.3%, from £21.8 million in the 27 week period ended 2 July 2016 to £23.4 million in the 26 week period ended 1 July 2017. The main driver of this growth has been the change to our operating model with growth in both our vehicle lease costs and transport wages.

Administrative expenses

Our administrative expenses increased by £12.3 million, or 17.3%, to £83.5 million in the 26 week period ended 1 July 2017 from £71.2 million in the 27 week period ended 2 July 2016. This movement mainly reflects the increase in onerous lease charges in relation to dark stores, together with the impairment of related fixed assets and some parallel running costs through Q1 17.

Other operating income

Our other operating income was flat at £0.5 million in both the 26 week period ended 1 July 2017 and the 27 week period ended 2 July 2016. This reflects the continued evolution of the rental income on and properties within our portfolio of “dark” stores (non-trading properties) that were being sublet in the period.

Operating (loss) / profit

We generated an operating loss of £21.8 million for the 26 week period ended 1 July 2017, compared to a £1.0 million profit in the 27 week period ended 2 July 2016.

Finance income

We report £3.7 million of finance income in the 26 week period ended 1 July 2017, an increase of £0.3 million on the £3.4 million of finance income recorded in the 27 week period ended 2 July 2016. This increase reflects the growth in the amounts owed by group undertakings and the corresponding non-cash settled intercompany interest receivable.

Finance expense

Our finance expense for the 26 week period ended 1 July 2017 grew by 4.2% or £0.9 million to £22.3 million from £21.4 million in the 27 week period ended 2 July 2016. This reflects the growth in the amounts owed to group undertakings following the equity raised by HSS Hire Group plc in December 2016 and the corresponding non-cash settled intercompany interest payable.

Loss before tax

We reported a loss before tax of £40.4 million for the 26 week period ended 1 July 2017, a £23.5 million increase on the loss before tax of £16.9 million reported in the 27 week period ended 2 July 2016.

Income tax expense

We reported a tax expense of £0.5 million for the 26 week period ended 1 July 2017, compared to a tax expense of £0.7 million in the 27 week period ended 2 July 2016.

Loss for the financial period

We reported a loss of £40.9 million for the 26 week period ended 1 July 2017 compared to a loss of £17.6 million for the 27 week period ended 2 July 2016.

Cash flows

The following table presents, for the periods indicated, our consolidated cash flows:

	27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
	(unaudited)	
(in millions of £)		
Net cash flows from operating activities before changes in hire equipment..............	**15.9**	**14.1**
Purchase of hire equipment	(14.1)	(11.9)
Cash generated from operations...................	**1.9**	**2.3**
Net interest paid	(6.4)	(6.9)
Income tax paid	(0.7)	(0.2)
Net cash utilised in operating activities	**(5.2)**	**(4.8)**
Net cash used in investing activities	(8.0)	(4.1)
Net cash received from financing activities.......	13.3	13.4
Increase in cash	**0.0**	**4.5**

Net cash flow from operating activities before changes in hire equipment

Our net cash flow from operating activities before changes in hire equipment decreased by £1.8 million to a £14.1 million inflow for the 26 week period ended 1 July 2017 from a £15.9 million inflow for the 27 week period ended 2 July 2016. This change reflects the decline in EBITDA period on period, partially offset by the move from investment in working capital in H1 16 to generating cash from working capital in H1 17.

Cash generated from operations

We moved from generating £1.9 million of cash in operations in the 27 week period ended 2 July 2016 to generating £2.3 million of cash from operations in the 26 week period ended 1 July 2017. This £0.4 million increase reflects the decrease in purchases of hire equipment that were cash settled in the period, which offsets the decrease in net cash flow generated from operating activities before changes in hire equipment.

Net cash utilised in operating activities

Our net cash utilised in operating activities was £4.8 million in the 26 week period ended 1 July 2017, compared to £5.2 million in the 27 week period ended 2 July 2016. This movement reflects the higher cash generated from operations in the 26 week period ended 1 July 2017 compared to the cash generated in the 27 week period ended 2 July 2016, together with a small increase in the net interest paid and a small decrease in the income tax paid.

Net cash used in investing activities

Our net cash used in investing activities was £4.1 million for the 26 week period ending 1 July 2017, a £3.9 million decrease on the £8.0 million used in the 27 week period ending 2 July 2016. This decrease reflects the lower levels of non-hire stock capital expenditure cash settled in the 26 week period ended 1 July 2017 as we invested in less non-hire stock through the end of FY16 and in H1 17.

Net cash generated from financing activities

Our net cash generated from financing activities was £13.4 million for the 26 week period ending 1 July 2017, a £0.1 million increase from the £13.3 million generated in the 27 week period ending 2 July 2016. The net cash generated in the 27 week period ending 2 July 2016 principally reflects the net increase in drawings on the RCF and finance leases over the period. The net cash generated in the 26 week period ended 1 July 2017 principally reflects the funds flow post the December 2016 equity placing by HSS Hire Group plc, which moved £12.5 million of cash into the Group. Both periods also reflect the pay down of the capital element of finance leases.

Capital expenditures

Our capital expenditure incurred during the 26 week period ended 1 July 2017 and the 27 week period ended 2 July 2016 is set out below:

	27 week period / 26 week period ended	
	2 July 2016	**1 July 2017**
	(unaudited)	
(in millions of £)		
Hire stock capital expenditure	17.8	11.6
Non hire stock capital expenditure	8.5	2.3
Total capital expenditures	**26.3**	**13.9**

We categorise our capital expenditures as hire stock and non-hire stock capital expenditures. Hire stock capital expenditures relate to purchases of hire stock assets whereas non-hire stock capital expenditures relate to expenditures on, for example, vehicle trackers, signage, equipment racking, leasehold property improvements and capitalised dilapidations at the inception of a new property lease. We believe that approximately three quarters of our hire stock capital expenditure relates to the replacement of equipment that has either been lost by our customers or reached the end of its useful life and approximately two fifths of our non-hire capital expenditure relates to ongoing maintenance of our property and IT infrastructure.

Working Capital

The main components of our working capital are trade debtor balances, representing amounts owed by our account customers, and trade creditor balances, representing amounts owed to our suppliers in respect of our hire stock purchases, third-party equipment hire and other expenses, where we obtain deferred payment terms. Other than in respect of timing effects on the payment of hire stock purchases, we do not typically experience significant movements in our working capital between accounting periods. In addition, within working capital, we account for stocks of consumables and fuel held for resale, and stocks of spare parts used to repair our equipment. We do not typically experience material movements in these stock balances between accounting periods. Other working capital balances include amounts owed or due in respect of taxes, prepayments and accruals. A large proportion of our leasehold properties require quarterly rental payments (treated as prepayments). Value added tax and corporation tax also require quarterly payments. These payments may impact our working capital movements between accounting periods.

Borrowings

The table below presents a breakdown of the Group's interest-bearing loans and borrowings as at the dates indicated.

(in millions of £)	26 week period / 27 week period ended	
	2 July 2016	1 July 2017
	(unaudited)	
Non-current		
Notes	132.7	133.7
Amounts due to group undertakings	280.0	322.1
	412.8	**455.9**
Current		
Revolving credit facility	67.0	68.5
Bank overdraft	1.1	-
Amounts due to group undertakings	7.0	4.6
	75.1	**73.1**

See "Description of other indebtedness" for a description of the Group's indebtedness.

Contractual obligations

The following table summarises the Group's material contractual obligations as at 1 July 2017.

(in millions of £)	Within 1 year	Between 1 and 5 years	More than 5 years	Total
		(unaudited)		
Borrowings(1)	9.2	571.3	14.2	594.7
Finance lease obligations(2)	12.1	17.2	-	29.3
Total	**21.3**	**588.5**	**14.2**	**624.0**

(1) Maturity profile of nominal values and interest (includes amounts owed to group undertakings)

(2) Finance lease obligations represent hire equipment acquired under the Group's finance lease facilities in respect of its core HSS Hire and specialist businesses.

The Group's future operating lease commitments represent its operating leases in respect of the land and buildings, and vehicles that it leases, which is set out in the following table. These include lease obligations in respect of the Group's ''dark'' stores, the majority of which will lapse in the next four years. As at 1 July 2017 the Group held leases to 122 ''dark'' stores, which are its closed branches awaiting disposal, of which approximately 30% are either fully or partially sublet.

(in millions of £)	Within 1 year	Between 1 and 5 years	More than 5 years	Total
		(unaudited)		
Operating lease obligations	25.1	63.0	35.0	123.1

Off balance sheet arrangements

From time to time, we undertake forward purchases in support of our electricity requirements. As at 30 August 2017, we had not made any forward purchases.

Financial risk management

Market risk is the potential loss arising from adverse changes in market rates and consists of risks relating to foreign exchange rates, interest rates and market prices. We are not exposed to market price risk as we do not own assets the value of which is determined by market prices. We have been exposed to limited foreign exchange risk, as we have historically entered into limited foreign currency transactions and as we do not own extensive trading subsidiaries outside the United Kingdom.

We have been and, following the offering and the use of proceeds therefrom, will continue to be exposed to interest rate risk primarily in relation to our debt service obligations under our Revolving Credit Facility. The drawings under our Revolving Credit Facility will expose us to interest rate risks relating to fluctuations in LIBOR. We may seek to enter into an interest rate swap to hedge our exposure under the Revolving Credit Facility but no assurances can be made that we will be able to enter into a new interest rate swap on acceptable terms, or at all.

Selected critical judgments and estimates

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenue and expenses during the years then ended. Management bases its estimates on historical experience and various other assumptions that are considered to be reasonable in the particular circumstances.

Actual results may differ from these estimates. The judgments, estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of this revision and future periods if the revision affects both current and future periods.

The following are the key areas of our accounting policies in which management made judgments or key assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill, intangible assets and property, plant and equipment

These assets are reviewed annually or more frequently if there is an indication of impairment to ensure that they are not carried above their estimated recoverable amounts. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows.

Onerous lease provision

When an onerous lease has been identified the costs of exiting the lease and leaving the leased property are estimated by management and provided for. The actual costs of exiting the lease could vary from the estimates.

Provisions for dilapidations

Management estimate and make provision for costs that will be incurred in returning a leased property to the condition that it was in at the inception of the lease. The actual costs of the work that needs to be completed could vary from the estimates.

Income taxes

Estimates may be required in determining the level of current and deferred income tax assets and liabilities, which the directors believe are reasonable and adequately recognise any income tax related uncertainties. Various factors may have favourable or adverse effects on the income tax assets or liabilities. These include changes in tax legislation, tax rates and allowances, future levels of spending, the Group’s level of future earnings and estimated future taxable profits.

Useful economic life of assets

The Group’s policy for applying useful economic lives and residual values of assets has been determined through applying historical experience and taking into consideration the nature of assets and their intended use.

Description of other indebtedness

Our significant outstanding indebtedness, in addition to the Notes, is summarised below.

Revolving Credit Facility

In connection with the offering of the Notes, the Company and the other Guarantors and the Issuer entered into a £60.0 million super senior revolving credit facility agreement dated 30 January 2014 (the “Revolving Credit Facility Agreement”) with, among others, Barclays Bank PLC, as facility agent and U.S. Bank Trustees Limited, as security agent.

The Revolving Credit Facility may be utilised by any current or future borrower under the Revolving Credit Facility Agreement in Euros, U.S. Dollars, Sterling or any other readily available and agreed currency by the drawing of cash advances or the issue of letters of credit and ancillary facilities. The Revolving Credit Facility may be applied towards the Restricted Group’s (being the Company and its restricted subsidiaries) working capital and general corporate purposes.

In November 2015 the Company requested additional commitments of £20.0 million under the Revolving Credit Facility Agreement (the “Additional Facility Commitments”). The existing lenders agreed to provide the Additional Facility Commitments.

The Revolving Credit Facility may be utilised from the Issue Date until the date falling one month prior to the maturity date of the Revolving Credit Facility in respect of the facility and in relation to any additional facility thereunder, the date specified in the applicable additional facility notice.

Subordinated shareholder loans

Our subordinated shareholder loans (“Subordinated Shareholder Loans”) represent certain intercompany loans between other group undertakings and the Company with an aggregate nominal amount of £309.1 million as at 1 July 2017. The Subordinated Shareholder Loans were due to mature in December 2022.

Intercreditor Agreement

To establish the relative rights of certain of our creditors under our financing arrangements, the Company and certain of its subsidiaries (including the Guarantors) entered into the Intercreditor Agreement on 30 January 2014 with, among others, the Security Agent, the lenders under our Revolving Credit Facility (the “Senior Lenders”), and the senior agent under the Revolving Credit Facility. The Intercreditor Agreement is governed by English law and sets out, among other things, the relative ranking of certain indebtedness of our debtors, the relative ranking of certain security granted by our debtors, when payments can be made in respect of debt of our debtors, when enforcement action can be taken in respect of that indebtedness, the terms pursuant to which certain of that indebtedness will be subordinated upon the occurrence of certain insolvency events and revenue provisions.

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Hero Acquisitions Limited

Interim statements
For the 26 weeks ended 1 July 2017

Registered number 06209511

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Hero Acquisitions Limited

Unaudited condensed consolidated income statement

	Note	26 weeks ended 1 July 2017 £000s	*Restated* 27 weeks ended 2 July 2016 £000s
Revenue	3	**160,538**	166,229
Cost of sales		**(76,000)**	(72,723)
Gross profit		**84,538**	93,506
Distribution costs		**(23,423)**	(21,775)
Administrative expenses		**(83,452)**	(71,215)
Other operating income	4	**525**	528
Operating loss		**(21,812)**	1,044
Adjusted EBITDA[(1)]	3, 14	**17,284**	32,458
Less: Adjusted depreciation [(1)]		**(24,394)**	(22,703)
Adjusted EBITA[(1)]		**(7,110)**	9,755
Less: Exceptional items	4, 14	**(12,643)**	(6,989)
Less: Amortisation[(1)]		**(2,059)**	(1,722)
Operating loss		**(21,812)**	1,044
Net finance expense	5	**(18,594)**	(17,983)
Loss before tax		**(40,406)**	(16,939)
Adjusted loss before tax		**(25,704)**	(8,228)
Less: Exceptional items	4	**(12,643)**	(6,989)
Less: Amortisation	6	**(2,059)**	(1,722)
Loss before tax		**(40,406)**	(16,939)
Taxation		**(467)**	(709)
Loss for the financial period		**(40,873)**	(17,648)

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals. Adjusted EBITA is defined as operating profit before amortisation and exceptional items.

The notes on pages F-8 to F-23 form part of these condensed consolidated financial statements.

Unaudited condensed consolidated statement of comprehensive income

	26 weeks ended 1 July 2017 £000s	*Restated* 27 weeks ended 2 July 2016 £000s
Loss for the financial period	**(40,873)**	(17,648)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**144**	1,329
Other comprehensive profit for the period, net of tax	**144**	1,329
Total comprehensive loss for the period	**(40,729)**	(16,319)

The notes on pages F-8 to F-23 form part of these condensed consolidated financial statements.

Hero Acquisitions Limited

Unaudited condensed consolidated statement of financial position

	Note	1 July 2017 £000s	31 December 2016 £000s	*Restated* 2 July 2016 £000s
ASSETS				
Non-current assets				
Intangible assets	6	**155,010**	155,263	154,850
Property, plant and equipment	7	**161,945**	178,473	187,682
Deferred tax assets		**532**	780	1,282
Trade and other receivables	8	**72,214**	68,744	65,413
		389,701	403,260	409,227
Current assets				
Inventories		**7,817**	7,898	8,887
Trade and other receivables	8	**106,850**	115,854	109,545
Cash		**6,951**	2,425	1,372
		121,618	126,177	119,804
Total assets		**511,319**	529,437	529,031
LIABILITIES				
Current liabilities				
Trade and other payables	9	**(83,145)**	(88,875)	(83,746)
Borrowings	10	**(73,113)**	(74,361)	(75,113)
Provisions	11	**(6,236)**	(6,431)	(4,462)
Current tax liabilities		**(500)**	(501)	(520)
		(162,994)	(170,168)	(163,841)
Non-current liabilities				
Trade and other payables	9	**(17,185)**	(17,266)	(21,585)
Borrowings	10	**(455,865)**	(427,417)	(412,751)
Provisions	11	**(12,032)**	(10,712)	(11,059)
Deferred tax liabilities		**(1,890)**	(1,890)	(2,092)
		(486,972)	(457,285)	(447,487)
Total liabilities		**(649,966)**	(627,453)	(611,328)
Net liabilities		**(138,647)**	(98,016)	(82,297)
EQUITY				
Share capital		**8,591**	8,591	8,591
Retained deficit		**(147,238)**	(106,607)	(90,888)
Total deficit attributable to owners of the company		**(138,647)**	(98,016)	(82,297)

The notes on pages F-8 to F-23 form part of these condensed consolidated financial statements.

Unaudited condensed consolidated statement of changes in equity

	Note	Share capital	Accumulated deficit	Total equity
At 31 December 2016		8,591	(106,607)	(98,016)
Total comprehensive loss for the period				
Loss for the period		-	(40,873)	(40,873)
Foreign currency translation differences arising on consolidation of foreign operations		-	144	144
Total comprehensive loss for the period		-	(40,729)	(40,729)
Share based payment charge			98	98
At 1 July 2017		**8,591**	**(147,238)**	**(138,647)**

	Share capital	Accumulated deficit	Total equity
	£000s	£000s	£000s
At 26 December 2015	8,591	(74,569)	(65,978)
Total comprehensive loss for the period			
Loss for the period	-	(17,648)	(17,648)
Foreign currency translation differences arising on consolidation of foreign operations	-	1,329	1,329
Total comprehensive loss for the period	-	(16,319)	(16,319)
At 2 July 2016 (restated)	8,591	(90,888)	(82,297)

The notes on pages F-8 to F-23 form part of these condensed consolidated financial statements.

Unaudited condensed consolidated statement of cash flows

	Note	26 weeks ended 1 July 2017	*Restated* 27 weeks ended 2 July 2016
Cash flows from operating activities		**£000s**	£000s
Loss before income tax		**(40,406)**	(16,939)
Adjustments for:			
– Amortisation		**2,059**	1,720
– Depreciation		**18,894**	18,103
– Net book value of hire stock losses and write offs		**5,500**	4,485
– Impairment of property, plant and equipment		**6,225**	-
– Loss on disposal of other fixed assets		**-**	115
– Share based payment		**98**	-
– Finance income		**(3,723)**	(3,387)
– Finance expense		**22,317**	21,370
– Inventories		**81**	208
– Trade and other receivables		**5,842**	(5,807)
– Trade and other payables		**(3,745)**	(2,452)
– Provisions		**984**	(1,505)
Net cash flows from operating activities before changes in hire equipment		**14,126**	15,911
Purchase of hire equipment		**(11,852)**	(14,060)
Cash generated from operating activities		**2,274**	1,851
Net interest paid		**(6,861)**	(6,374)
Income tax (paid)/ received		**(219)**	(709)
Net cash utilised in operating activities		**(4,806)**	(5,232)
Cash flows from investing activities			
Purchases of non hire property, plant, equipment and software		**(4,114)**	(8,013)
Net cash used in investing activities		**(4,114)**	(8,013)
Cash flows from financing activities			
Proceeds from borrowings (third parties)		**3,500**	26,000
Proceeds from borrowings (group undertakings)		**12,532**	-
Repayments of borrowings		**(1,000)**	(5,882)
Cash received from refinancing hire stock		**5,030**	-
Capital element of finance lease payments		**(6,616)**	(6,860)
Net cash received from financing activities		**13,446**	13,258
Net increase in cash		**4,526**	13
Cash at the start of the period		**2,425**	276
Cash at the end of the period		**6,951**	289

The notes on pages F-8 to F-23 form part of these condensed consolidated financial statements.

Notes to the consolidated financial statements

For the 26 weeks period ended 1 July 2017

1. General information

The Company is a limited company which is incorporated and domiciled in the United Kingdom. The address of the registered office is 25 Willow Lane, Mitcham, Surrey, CR4 4TS. The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

The condensed consolidated financial statements as at, and for the 26 weeks ended 1 July 2017 comprise the Company and its subsidiaries ('the Group').

The condensed consolidated financial statements were approved for issue by the Board on 29 August 2017.

The condensed consolidated financial statements do not comprise Statutory Accounts within the meaning of Section 434 of the Companies Act 2006. The comparative financial information for the 27 weeks ended 2 July 2016, and the 53 weeks ended 31 December 2016, do not constitute statutory accounts for those periods, respectively. Statutory Accounts for the year ended 31 December 2016 were approved by the Board on 5 April 2017 and delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not include a reference to any matter by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The condensed consolidated financial statements for the 26 weeks ended 1 July 2017 has been prepared in accordance with International Financial reporting Standards ('IFRS')", as adopted by the European Union (including IAS34 - Interim Financial Reporting.) The condensed consolidated financial statements should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 December 2016, which were prepared in accordance with IFRS as adopted by the European Union.

The accounting policies, and judgements and estimates, applied in the condensed consolidated financial statements are consistent with those set out in the Group's Annual Report and Accounts for the year ended 31 December 2016. There are no new IFRS or IFRIC Interpretations that are effective for the first time for this interim period which have a material impact on the Group.

Prior period restatement

Comparative information as at, and for the 27 week period ending 2 July 2016 has been restated in these condensed consolidated financial statements, and a reconciliation to amounts previously reported may be found in note 15. The group redefined its operating segments in its half year accounts for the 27 week period ending 2 July 2016 adopting reportable segments defined as Rental and related revenue, and Services, and subsequently further refined and restated the half year accounts figures in an announcement made on 22 March 2017. The basis of the change was more fully described in note 2 of the Group's Annual Report and Accounts for the year ended 31 December 2016. The comparative segmental disclosure in note 3 is based upon the restated disclosure.

Going concern

The Directors have reviewed the Group's current performance, forecasts and projections, taking account of reasonably possible changes in trading performance and considering senior debt and interest repayments, combined with expenditure commitments. In particular the directors have considered the adequacy of the Group's debt facilities with specific regard to the following factors:

- the financial covenants relating to the revolving credit facility secured by the Group
- the maturity of the revolving credit facility in February 2019
- there is no requirement to redeem any of the Senior Secured Notes until 1 August 2019

After reviewing the above, taking into account current and future developments and principal risks and uncertainties, and making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

3. Segmental reporting

The Group’s operations are segmented into the following reportable segments:

- Rental and related revenue.
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including powered access, power generation, cleaning and HVAC assets, together with directly related revenue such as resale (fuel and other consumables) transport and other ancillary revenues.

Services comprise the Group’s rehire business (HSS OneCall), HSS Training and TecServ. HSS One Call provides customers with a single point of contact for the hire of products that are not typically held within HSS’ fleet and are obtained from approved third party partners; HSS Training provides customers with specialist safety training across a wide range of products and sectors; and TecServ provides customers with maintenance services for a full range of cleaning machines.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom and the Republic of Ireland. Revenue from one customer exceeded 10% of Group turnover in the period ending 1 July 2017 (2016: nil).

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

3. Segmental reporting (continued)

	26 weeks ended 1 July 2017			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	119,252	41,286	-	160,538
Contribution	73,930	5,158	-	79,088
Branch and selling costs			(41,315)	(41,315)
Central costs			(20,489)	(20,489)
Adjusted EBITDA				17,284
Less: Exceptional items			(12,643)	(12,643)
Less: Depreciation and amortisation	(20,261)	(164)	(6,028)	(26,453)
Operating loss				(21,812)
Finance income				3,723
Finance expense				(22,317)
Loss before tax				(40,406)
Additions to non-current assets				
Property, plant and equipment	11,623	18	2,289	13,930
Intangibles	-	109	1,697	1,806
Non-current assets net book value				
Property, plant and equipment	125,611	343	35,991	161,945
Intangibles	146,069	549	8,392	155,010
Unallocated corporate assets				
Non current deferred tax assets			532	532
Non current Trade and other receivables			72,214	72,214
Current assets			121,618	121,618
Current liabilities			(162,994)	(162,994)
Non current liabilities			(486,972)	(486,972)
Net assets				(138,647)

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

3. Segmental reporting (continued)

	Restated 27 weeks ended 2 July 2016			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	128,704	37,525	-	166,229
Contribution	86,657	5,167	-	91,825
Branch and selling costs			(45,503)	(45,503)
Central costs			(13,864)	(13,864)
Adjusted EBITDA				32,458
Less: Exceptional items			(6,989)	(6,989)
Less: Depreciation and amortisation	(18,066)	(126)	(6,231)	(24,425)
Operating profit				1,044
Finance income				3,387
Finance expense				(21,370)
Loss before tax				(16,939)
Additions to non-current assets				
Property, plant and equipment	17,805	77	8,411	26,293
Intangibles	-	34	2,284	2,318
Non-current assets net book value				
Property, plant and equipment	144,037	384	43,261	187,682
Intangibles	146,880	598	7,372	154,850
Unallocated corporate assets				
Non current deferred tax assets			1,282	1,282
Non current Trade and other receivables			65,413	65,413
Current assets			119,804	119,804
Current liabilities			(163,841)	(163,841)
Non current liabilities			(447,487)	(447,487)
Net assets				(82,297)

Notes to the consolidated financial statements (continued)

For the 26 weeks period ended 1 July 2017

4. Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are non-recurring. An analysis of the amount presented as exceptional items in the consolidated income statement is given below.

During the period ended 1 July 2017, the Group has recognised total exceptional costs of £12.6 million, analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	26 weeks ended 1 July 2017
	£000s	£000s	£000s	£000s	£000s
NDEC exceptional costs					
Project management, design, set-up	-	-	-	-	-
Parallel running	-	-	-	-	-
Non-recurring transitional engineering costs	-	-	-	-	-
Branch and CDC closure redundancies	-	-	-	-	-
Total NDEC exceptional costs	**-**	**-**	**-**	**-**	**-**
Branch and distribution centre closure onerous leases	-	-	4,969	-	4,969
Impairment of property, plant and equipment	-	-	6,225	-	6,225
Group restructuring	-	-	-	-	-
Resale stock impairment	-	-	-	-	-
Pre-opening costs	-	-	-	-	-
Cost reduction programme	95	162	1,717	-	1,974
Sub-let rental income on onerous leases	-	-	-	(525)	(525)
Exceptional items (non-finance)	**95**	**162**	**12,911**	**(525)**	**12,643**

The Group has incurred significant costs restructuring its business and its operating model. Central to this has been the establishment of the National Distribution and Engineering Centre ("NDEC") near Oxford which is the centrepiece of our supply chain, designed to serve our branch and distribution network and provide improved customer experience, operational and capital efficiency. This replaces the former hub and spoke model deployed by the group. Additionally we have closed branches and reduced headcount.

Branch and distribution centre closure onerous leases

The number of branches and distribution centres has been reduced as activity has been centralised into fewer locations and a new divisional structure created. 50 branches were closed during the period. An exceptional cost of £5.0 million relating to onerous leases and dilapidations costs has been recorded in the 26 weeks ended 1 July 2017 (53 weeks ended 31 December 2016: £4.5 million; 27 weeks ended 2 July 2016: £1.3 million).

Impairment of property, plant and equipment

Following the branch closures management have conducted an impairment review of property plant and equipment in closed branches to determine what can be reused across the network. During the 26 weeks ended 1 July 2017 an impairment of £6.2 million has been recorded, (53 weeks ended 31 December 2016: £nil; 27 weeks ended 2 July 2016: £ nil).

Cost reduction programme

Associated to the establishment of the NDEC and the reduced branch network the Group has also announced plans to deliver significant cost reductions primarily by reducing headcount by redundancy. During the 26 weeks ended 1 July 2017 costs of £2.0 million are included as exceptional items relating to the cost reduction programme, (53 weeks ended 31 December 2016: £nil; 27 weeks ended 2 July 2016: £0.1 million).

Notes to the consolidated financial statements (continued)

For the 26 weeks period ended 1 July 2017

4. Exceptional items (continued)

Sub-let rental income

Sub-let income from vacant properties is recorded within exceptional items as other operating income. During the 26 weeks ended 1 July 2017 an exceptional credit of £0.5 million was recorded. (53 weeks ended 31 December 2016: £1.1 million credit; 27 weeks ended 2 July 2016: £0.5 million credit).

NDEC

The restructuring began in 2015. The NDEC started to operate in March 2016, and by October 2106 was processing more than 50% of operational volumes. During the 26 weeks ended 1 July 2017 the NDEC became fully operational. Total NDEC exceptional costs for 27 weeks ended 2 July 2016: £5.9 million.

During the period ended 2 July 2016, the Group has recognised total exceptional costs, analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	27 weeks ended 2 July 2016
	£000s	£000s	£000s	£000s	£000s
NDEC exceptional costs					
Project management, design, set-up	1,835	-	1,041	-	2,876
Parallel running	2,782	-	108	-	2,890
Non-recurring transitional engineering costs	-	-	-	-	-
Branch and CDC closure redundancies	-	-	170	-	170
Total NDEC exceptional costs	4,617	-	1,319	-	5,936
Branch and distribution centre closure onerous leases	-	-	1,306	-	1,306
Resale stock impairment	-	-	-	-	-
Pre-opening costs	-	-	162	-	162
Cost reduction programme	-	-	113	-	113
Acquisitions	-	-	-	-	-
Sub-let rental income on onerous leases	-	-	-	(528)	(528)
Exceptional items	4,617	-	2,900	(528)	6,989

5. Finance income and expense

	26 weeks ended 1 July 2017	27 weeks ended 2 July 2016
	£000s	£000s
Interest on amounts due from group undertakings	**(3,722)**	(3,386)
Interest received on cash deposits	**(1)**	(1)
Finance income	**(3,723)**	(3,387)
Bank loans and overdrafts	**998**	971
Interest on amounts due to group undertakings	**15,423**	14,182
Senior secured notes	**4,577**	4,753
Finance leases	**761**	878
Interest unwind on discounted provisions	**38**	58
Debt issue cost	**520**	528
Finance expense	**22,317**	21,370
Net finance expense	**18,594**	17,983

Notes to the consolidated financial statements (continued)

For the 26 weeks period ended 1 July 2017

6. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 31 December 2016	142,398	2,982	2,242	19,967	167,589
Foreign exchange differences	-	-	-	-	-
Additions	-	-	-	1,806	1,806
Transfers	-	-	-	-	-
At 1 July 2017	142,398	2,982	2,242	21,773	169,395
Amortisation					
At 31 December 2016	-	684	389	11,253	12,326
Charge for the period	-	163	72	1,824	2,059
Transfers	-	-	-	-	-
At 1 July 2017	-	847	461	13,077	14,385
Net book value					
At 1 July 2017	**142,398**	**2,135**	**1,781**	**8,696**	**155,010**
At 31 December 2016	142,398	2,298	1,853	8,714	155,263

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 26 December 2015	142,825	2,544	2,242	14,997	162,608
Additions	-	-	-	2,318	2,318
At 2 July 2016	142,825	2,544	2,242	17,315	164,926
Amortisation					
At 26 December 2015	-	256	232	7,868	8,356
Charge for the period	-	158	82	1,480	1,720
At 2 July 2016	-	414	314	9,348	10,076
Net book value					
At 2 July 2016	142,825	2,130	1,928	7,967	154,850
At 26 December 2015	142,825	2,288	2,010	7,129	154,252

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

7. Property, plant and equipment

	Land & Buildings £000s	Plant & Machinery £000s	Materials & Equipment held for hire £000s	Total £000s
Cost				
At 31 December 2016	69,187	58,673	247,295	375,155
Foreign exchange differences	10	41	396	447
Additions	1,132	1,175	11,623	13,930
Disposals	(759)	(49)	(14,817)	(15,625)
At 1 July 2017	69,570	59,840	244,497	373,907
Accumulated depreciation				
At 31 December 2016	37,095	46,214	113,373	196,682
Foreign exchange differences	-	30	244	274
Charge for the period	2,359	1,949	14,586	18,894
Impairment loss	6,225	-	-	6,225
Disposals	(758)	(38)	(9,317)	(10,113)
At 1 July 2017	44,921	48,155	118,886	211,962
Net book value				
At 1 July 2017	**24,649**	**11,685**	**125,611**	**161,945**
At 31 December 2016	32,092	12,459	133,922	178,473

Cost				
At 26 December 2015	63,313	55,914	256,208	375,435
Foreign exchange differences	22	184	1,909	2,115
Additions	4,208	4,280	17,805	26,293
Disposals	(384)	(95)	(11,786)	(12,265)
At 2 July 2016	67,159	60,283	264,136	391,578
Accumulated depreciation				
At 26 December 2015	35,258	44,016	112,948	192,222
Foreign exchange differences	-	126	1,110	1,236
Charge for the period	2,754	2,008	13,341	18,103
Disposals	(269)	(95)	(7,301)	(7,665)
At 2 July 2016 (restated)	37,743	46,055	120,098	203,896
Net book value				
At 2 July 2016 (restated)	29,416	14,228	144,038	187,682

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

8. Trade and other receivables

Non-current	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Amounts due from group undertakings	**72,214**	68,744	65,413
	72,214	68,744	65,413

Current	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Gross trade receivables	**77,575**	83,072	78,231
Less provision for impairment	**(3,879)**	(3,740)	(4,766)
Net trade receivables	**73,696**	79,332	73,465
Other debtors	**367**	578	409
Prepayments and accrued income	**23,724**	23,707	29,398
Amounts due from group undertakings	**9,063**	12,237	6,273
	106,850	115,854	109,545

9. Trade and other payables

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Current			
Obligations under finance leases	**12,126**	11,448	11,446
Trade payables	**43,550**	52,505	44,472
Other taxes and social security costs	**6,831**	5,686	4,521
Other creditors	**1,935**	276	890
Accrued interest on borrowings	**3,844**	3,859	3,885
Accruals and deferred income	**14,859**	15,101	18,532
	83,145	88,875	83,746
Non-current			
Obligations under finance lease	**17,185**	17,266	21,585
	17,185	17,266	21,585

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

10. Borrowings

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Current			
Revolving credit facility	**68,500**	66,000	67,000
Bank overdraft	**-**	-	1,083
Amounts due to group undertakings	**4,613**	8,361	7,030
	73,113	74,361	75,113
Non-current			
Senior secured notes	**133,733**	133,212	132,717
Amounts due to group undertakings	**322,132**	294,205	280,034
	455,865	427,417	412,751

The nominal value of the Group's loans at each reporting date is as follows:

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Secured senior notes	**136,000**	136,000	136,000
Amounts due to group undertakings	**326,745**	302,566	287,064
	462,745	438,566	423,064

The Group's Super Senior RCF and Senior Secured Notes are both secured on a shared basis by a first ranking lien over certain assets (comprising substantially all material assets of the Group). The Super Senior RCF shares its security with the Senior Secured Notes but shall get priority over any enforcement proceeds via a payment waterfall.

Non-current amounts due to group undertakings fall due in 2022 (2016: falling due in 2022). The secured senior note is a 6.75% fixed rate bond maturing in 2019, and is listed on the Luxembourg stock exchange.

The interest rates on the Group's variable interest loans are as follows:

	1 July 2017 % above LIBOR	31 December 2016 % above LIBOR	2 July 2016 % above LIBOR
Revolving credit facility	**2.50%**	2.25%	2.00%

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

10. Borrowings (continued)

The interest rates on the Group's fixed interest loans are as follows:

	1 July 2017 Fixed rate	31 December 2016 Fixed rate	2 July 2016 Fixed rate
Secured senior notes	**6.75%**	6.75%	6.75%
Amounts due to group undertakings	**10% & 6.75%**	10% & 6.75%	10% & 6.75%

The Group's borrowings have the following maturity profile:

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Less than one year	**9,180**	9,180	9,180
Two to five years	**571,323**	429,264	431,761
Over five years	**14,195**	174,128	172,279
	594,698	612,572	613,220
Less interest cash flows:			
Senior secured notes	**(25,245)**	(27,540)	(32,130)
Amounts due to group undertakings	**(103,277)**	(146,466)	(158,026)
Total principal cash flows	**466,176**	438,566	423,064

The following table shows the fair value of the Group's Senior Secured Notes:

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Financial liabilities			
6.75% Senior secured notes	**134,980**	137,700	132,430
	134,980	137,700	132,430

The Group has undrawn committed borrowing facilities of £28.3 million at 1 July 2017 (2 July 2016: £20.9 million). Including net cash balances, the Group had access to £35.3 million of combined liquidity from available cash and undrawn committed borrowing facilities at 1 July 2017.

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

11. Provisions

	Onerous leases £000s	Dilapidations £000s	Total £000s
At 31 December 2016	5,398	11,745	17,143
Additions	4,353	160	4,513
Utilised during the period	(2,018)	(1,052)	(3,070)
Unwind of provision	16	23	39
Released	(104)	(253)	(357)
At 1 July 2017	**7,645**	**10,623**	**18,268**
Of which:			
Current	**3,617**	**2,619**	**6,236**
Non current	**4,028**	**8,004**	**12,032**
	7,645	**10,623**	**18,268**
At 26 December 2015	4,537	10,136	14,673
Additions	669	2,296	2,965
Utilised during the period	(925)	(527)	(1,452)
Unwind of provision	32	26	58
Released	(163)	(560)	(723)
At 2 July 2016	4,150	11,371	15,521
Of which:			
Current	1,682	2,780	4,462
Non current	2,468	8,591	11,059
	4,150	11,371	15,521

Notes to the consolidated financial statements (continued)

For the 26 weeks period ended 1 July 2017

12. Commitments and contingencies

The Group's commitments under non-cancellable operating leases are set out below:

	1 July 2017 £000s	31 December 2016 £000s	2 July 2016 £000s
Land and buildings			
Within one year	**15,972**	16,140	15,863
Between two and five years	**48,550**	48,447	48,047
After five years	**34,920**	35,562	31,758
	99,442	100,149	95,668
Other			
Within one year	**9,162**	9,142	7,657
Between two and five years	**14,451**	15,952	11,311
After five years	**56**	321	40
	23,669	25,415	19,008
	123,111	125,564	114,676

13. Related party transactions

By virtue of its majority shareholding the Group's ultimate parent entity is Exponent Private Equity LLP.

At 1 July 2017 the Group owed £325.7 million (2 July 2016: £84.7 million) to Hampshire Bidco Limited, the Company's immediate holding company, of which £3.6 million is classified as current (2 July 2016: £3.3 million) and £322.1 million is non-current (2 July 2016: £81.4 million).

At 1 July 2017 the Group owed £nil million to Hampshire Topco Limited, the Company's intermediate holding company (2 July 2016: £102.8 million, classified as non-current).

At 1 July 2017 the Group was owed £6.1 million, classified as current, (2 July 2016: £3.8 million) by Hampshire Topco Limited.

At 1 July 2017 the Group owed £1.1 million (2 July 2016: £99.6 million) to HSS Hire Group Plc, the Company's ultimate holding company in which it is consolidated, classified as current (2 July 2016: £3.7 million classified as current and £95.9 million non-current).

At 1 July 2017 the Group was owed £75.1 million (2 July 2016: £67.9 million) by Hampshire Midco Limited, the Company's intermediate holding company, of which £2.9 million is classified as current (2 July 2016: £2.5 million) and £72.2 million is non-current (2 July 2016: £65.4 million).

During the period the Group paid interest of £15.4 million (27 weeks ended 2 July 2016: £14.2 million) to other group companies.

During the period the Group received interest of £3.7 million (27 weeks ended 2 July 2016: £3.4 million) from other group companies.

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

14. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	26 weeks ended 1 July 2017	27 weeks ended 2 July 2016
	£000s	£000s
Operating (loss)/ profit	**(21,812)**	1,044
Add: Depreciation of property, plant and equipment	**18,894**	18,103
Add: Net book value of hire stock losses and write offs	**5,500**	4,485
Add: Net book value of other fixed asset disposals less proceeds on those disposals	**-**	115
Add: Amortisation	**2,059**	1,722
EBITDA	**4,641**	25,469
Add: Exceptional items	**12,643**	6,989
Adjusted EBITDA	**17,284**	32,458

Adjusted EBITA is calculated as follows:

	26 weeks ended 1 July 2017	27 weeks ended 2 July 2016
	£000s	£000s
Operating (loss)/ profit	**(21,812)**	1,044
Add: Amortisation	**2,059**	1,722
EBITA	**(19,753)**	2,766
Add: Exceptional items	**12,643**	6,989
Adjusted EBITA	**(7,110)**	9,755

Notes to the consolidated financial statements (continued)

For the 26 weeks period ended 1 July 2017

15. Prior period restatement for change in depreciation estimate

The Group reviews its depreciation policy annually. As disclosed in note 1 in the Annual Report and Financial Statements for the year ended 31 December 2016, effective 27 December 2015, the directors assessed that the residual values of certain powered access assets should be changed from 10% to 20% and residual values of 10% should be introduced for power generation assets. As a result of these changes, the depreciation charge for the 27 week period ending 2 July 2016 previously reported has been reduced by £2.0 million.

Reconciliation of the condensed consolidated statement of financial position at 2 July 2016

	Restated	Change in depreciation estimate	As originally reported
	£000s	£000s	£000s
ASSETS			
Non-current assets			
Intangible assets	154,850	-	154,850
Property, plant and equipment	187,682	(1,986)	185,696
Deferred tax assets	1,282	-	1,282
Trade and other receivables	65,413	-	65,413
	409,227	(1,986)	407,241
Current assets			
Inventories	8,887	-	8,887
Trade and other receivables	109,545	-	109,545
Cash	1,372	-	1,372
	119,804	-	119,804
Total assets	529,031	(1,986)	527,045
LIABILITIES			
Current liabilities			
Trade and other payables	(83,746)	-	(83,746)
Borrowings	(75,113)	-	(75,113)
Provisions	(4,462)	-	(4,462)
Current tax liabilities	(520)	-	(520)
	(163,841)	-	(163,841)
Non-current liabilities			
Trade and other payables	(21,585)	-	(21,585)
Borrowings	(412,751)	-	(412,751)
Provisions	(11,059)	-	(11,059)
Deferred tax liabilities	(2,092)	-	(2,092)
	(447,487)	-	(447,487)
Total liabilities	(611,328)	-	(611,328)
Net liabilities	(82,297)	(1,986)	(84,283)
EQUITY			
Share capital	8,591	-	8,591
Retained deficit	(90,888)	(1,986)	(92,874)
Total deficit attributable to owners of the company	(82,297)	(1,986)	(84,283)

Notes to the consolidated financial statements (continued)
For the 26 weeks period ended 1 July 2017

15. Prior period restatement for change in depreciation estimate (continued)

Reconciliation of the condensed consolidated income statement for the 27 week period ended 2 July 2016

	Restated £000s	Change in depreciation estimate £000s	As originally reported £000s
Revenue	166,229	-	166,229
Cost of sales	(72,723)	(1,986)	(74,709)
Gross profit	93,506	(1,986)	91,520
Distribution costs	(21,775)	-	(21,775)
Administrative expenses	(71,215)	-	(71,215)
Other operating income	528	-	528
Operating profit/ (loss)	1,044	(1,986)	(942)
Finance income	3,387	-	3,387
Finance expense	(21,370)	-	(21,370)
Loss before tax	(16,939)	(1,986)	(18,925)
Taxation	(709)	-	(709)
Loss for the financial period	(17,648)	(1,986)	(19,634)