HSS Hire Group plc

Audited Results for HSS Hire Group plc for the year ended 30 December 2017

Trading momentum and strategic progress give strong platform to build upon

HSS Hire Group plc ("HSS" or the "Group") today announces results for the year ended 30 December 2017.

Financial Highlights	FY17 (52 weeks)	FY16 (53 weeks)	Change
Revenue	£335.8m	£342.4m	(1.9)%
Adjusted EBITDA[1]	£48.9m	£68.6m	£(19.7)m
Adjusted EBITDA margin	14.6%	20.0%	(5.4)pp
Adjusted EBITA[2]	£1.8m	£20.5m	£(18.7)m
Adjusted EBITA margin	0.5%	6.0%	(5.5)pp
Adjusted (loss)/profit before tax[3]	£(12.0)m	£5.8m	£(17.8)m
Adjusted (loss)/earnings per share[4]	(5.68)p	2.94p	(8.62)p
Statutory extracts			
Operating loss	£(71.4)m	£(2.7)m	£(68.7)m
Reported loss before tax	£(85.2)m	£(17.4)m	£(67.8)m

Financial Highlights

- Adjusted EBITA of £1.8m (FY16: £20.5m), in line with management expectations
- Decisive management actions returned Group to adjusted EBITA profit in the second half of the year:
  - H1 Adjusted EBITA loss of £7.3m, profitability impacted by substantial operating model changes
  - H2 Adjusted EBITA profit of £9.1m
- Improving performance trend through H2:
  - Underlying rental revenue growth of 1.1% vs H2 16 [5]
  - Continued strength in Services with revenue +11.1% and contribution +30.5% vs H2 16
  - Q4 Adjusted EBITDA ahead of prior year on a comparable basis [6]

Operational Highlights

- Delivered £13m of annualised cost savings through network efficiencies, reduced central headcount and branch closures; Q4 overheads £3.3m lower than Q1
- Continued operational improvements:
  - Improved capital efficiency leading to reduction in capex of around £5m year on year
  - Asset utilisation for Core in H2 53% (H2 16: 50%) and for Specialist 75% (H2 16: 75%)
- In depth strategic review completed with findings and plans outlined in December, including identification of further £10-£14m of annualised cost savings to be delivered in FY18 and FY19
- Exceptional costs of £66.6m primarily to realise savings implemented in the year and enable changes to the supply chain model identified in Strategic Review.
- Strategy focused on three areas to deliver improved performance:
  - Delever the Group
  - Repair the tool hire business
  - Strengthen the Group commercial proposition

Current Trading and Outlook

- Solid performance with improving trend continuing into 2018:
    - Underlying revenue growth of over 6% in Q1 18 compared to Q1 17 [5]
    - Underlying core rental revenue growth greater than 3% in Q1 18 compared to Q1 17 [5]
    - LTM Adjusted EBITDA expected to be c£54m at the end of March 2018, with Q1 18 expected to be 50% higher than Q1 17
- Reducing net debt and delevering the Group remains a key focus
    - Leverage reduced to 4.3x by end of Q1 18
    - Facility and cash headroom over £30m as at March 18
    - Agreed with lenders to extend the £80m revolving credit facility (RCF), now maturing in July 2019
- Good progress made on strategy implementation, including:
    - Changes to supply chain model on track to deliver annualised savings of c.£11m, resulting in an overall net cash inflows of c.£8m per annum from FY19
    - Targeted action on improving profitability of Tool Hire business
    - Looking forward we expect Net Leverage to reduce to 3.2x following the implementation of the identified strategic actions

Steve Ashmore, Chief Executive Officer of HSS Hire, said:

"Overall 2017 was a difficult year for HSS, mainly due to the impact of operational changes made in 2016. We have addressed this by focusing on the core rental business and reducing our cost base and I am pleased with how the business responded in the second half of the year. When I arrived in June, I instigated a thorough strategic review process, the results of which have given us clear direction and an ambition to restore the business to historic levels of performance. Whilst we are only a few months into implementing the strategy, early signs are encouraging, and we are pleased with the results of the changes made to our network and the associated cost savings. I have been particularly pleased with how the organisation has embraced and responded to the new strategic direction, and remain confident that we will be successful in delivering on our strategic priorities set out in December.

Looking ahead the positive trading momentum has continued into the first quarter. This strong start to 2018 and good progress made on our strategic priorities gives me growing confidence the business can deliver on its full potential."

Notes

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

2) Adjusted earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.

3) Adjusted (loss)/profit before tax defined as (loss)/profit before tax with amortisation and exceptional items added back

4) Adjusted (loss)/earnings per share defined as (loss)/profit before tax with amortisation and exceptional items added back less tax at the prevailing rate of corporation tax divided by the diluted weighted average number of ordinary shares

5) Underlying revenue is total revenue adjusted for the impact of branch closures in 2016 and 2017, business divestments in 2017, the effect of week 53 in 2016, and rental revenues and disposal proceeds arising from the material asset disposals made in 2016

6) Q4 16 post stripping out one off benefits from asset sales and one off supplier rebates of £2m

Results presentation

Management will be hosting a presentation for analysts at 0900 BST today at Numis Securities. Analysts/investors unable to attend in person may join the meeting by conference call by dialling in: +44 3333000804/
Pin: 59036688#. A copy of the presentation will be available at www.hsshiregroup.com/investor-relations/financial-results/ from 0900 BST today.

Update call for Hero Acquisitions Limited for holders of Senior Secured Notes

As required by the reporting obligations for the Senior Secured Notes, a separate conference call discussing the results of Hero Acquisitions Limited (a wholly owned subsidiary of HSS Hire Group plc) will be held for noteholders at 1400 BST today.

To obtain dial-in details for the call, holders should contact Teneo Blue Rubicon at hss@teneobluerubicon.com. The accompanying presentation for the call will be made available at www.hsshiregroup.com/investor-relations/senior-secured-notes

-Ends-

Disclaimer:

This announcement contains forward-looking statements relating to the business, financial performance and results of HSS Hire Group plc and the industry in which HSS Hire Group plc operates. These statements may be identified by words such as "expect", "believe", "estimate", "plan", "target", or "forecast" and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions and involve risks and uncertainties. Various factors could cause actual future results, performance or events to differ materially from those described in these statements and neither HSS Hire Group plc nor any other person accepts any responsibility for the accuracy of the opinions expressed in this presentation or the underlying assumptions. No obligation is assumed to update any forward-looking statements.

Notes to editors
HSS Hire Group plc provides tool and equipment hire and related services in the UK and Ireland through a nationwide network of over 250 locations. Focusing primarily on the maintain and operate segments of the market, over 90% of its revenues come from business customers. HSS is listed on the Main Market of the London Stock Exchange. For more information please see www.hsshiregroup.com.

For further information, please contact:

HSS Hire Group plc — **Tel: 020 3757 9248 (on 5th April 2018)**
Thereafter, please email: Investors@hss.com

Steve Ashmore, Chief Executive Officer
Paul Quested, Chief Financial Officer
Jonathan Edwards, Investor Relations, Treasury and Special Projects Manager

Teneo Blue Rubicon — **Tel: 020 3757 9248**

Robert Morgan
Shona Buchanan

Chairman's Statement

Strategic Review and progress made

We conducted a thorough, all-encompassing Strategic Review, reviewing the profitability of each customer, product and branch, as well as the most efficient operating model to support our business going forward.

To this end there are three clear areas of focus for the year ahead

- Delever the Group
- Repair and Revitalise the Tool Hire business
- Strengthen the Group's commercial proposition

I am encouraged by the outcome of the Strategic Review, the findings of which we presented in December 2017, and am confident that the delivery of these three priorities will improve Group profitability in 2018 and beyond.

We have already made good progress in the implementation of the strategy, and we are on track to deliver the annualised savings of £10m-£14m, which we presented in December.

As we communicated as part of the Strategic Review in December 2017, an agreement was reached in principle with Unipart at the end of 2017 and was finalised on the 13 February 2018. This allows us to make significant changes to our supply chain, in order to optimise our network. The National Distribution Engineering Centre model was initially envisaged to support a much larger branch network. Based on the size of our current network, this model is no longer cost effective. We therefore decided to move testing and some engineering back into the network and as a consequence, significantly reduce distribution costs. These changes have been positively

received and will lead to improved product availability and contribute annualised cost savings of around £11m of the total anticipated cost savings stated above. These changes resulted in an exceptional cost of £41m, which includes various one off payments in 2018 and cash payments of £33.8m over the following seven year period.

Our Results

We have seen an improving trend in our performance in the second half of the financial year, with strong Adjusted EBITA growth compared to the first half. These improving trends are demonstrated by our underlying rental revenue growth where we report 1.1% growth in H2 17 compared to H2 16. The underlying measure strips our the impact of branch closures in the two years, business divestments in 2017, the effect of week 53 in 2016, and rental revenues and disposal proceeds arising from the material asset disposals made in 2016. This was augmented by continued growth in our services segment revenue and contribution, which delivered 11.1% and 30.5% growth respectively in H2 17 compared to H2 16. Our relentless focus on cost reduction led to our overheads in Q4 17 being £3.3m below the level in Q1 17.However, notwithstanding this improvement, year on year revenue decreased 2% to £335.8m, with a decline in rental, which was impacted by operating model changes in 2016 and branch closures, offset by a growth in services, generating an Adjusted EBITA of £1.8m and Return on Capital Employed (ROCE) of 0.9%.

Our Board and Management Team

In June we welcomed the appointment of Steve Ashmore as our CEO. He brings considerable leadership experience to bear and consistent delivery of growth and value in a range of industries. Steve previously held a number of senior roles at Exel, the supply chain and third party logistics provider, and was 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.

On behalf of the Board, I would like to thank John Gill who stepped down as CEO in May, for his considerable contribution over more than eight years at the Company.

Governance

We are committed to high standards of corporate governance and as such, I am pleased to announce that the Group has complied with the UK Corporate Governance Code (the Code) during 2017.

During the year, and continuing into 2018, the Group has assessed and is implementing changes as required in preparation for the General Data Protection Regulation (GDPR) becoming law. This year also saw the introduction of the Criminal Finances Act, placing increased emphasis on controls to prevent the facilitation of tax evasion. The Board has given top level commitment to this, including a new policy, a risk assessment, and bespoke e-learning training modules. We also continued to monitor the Group's policies and procedures in respect of the Modern Slavery Act.

Our people

I continue to be extremely impressed with the motivation, can-do attitude and achievement of HSS people across our Group, which is reflected in our consistently high customer satisfaction scores. I am very confident that with their support, HSS will be successful in delivering on our strategic priorities and building upon the momentum of the second half of 2017.

Corporate Responsibility

Our primary responsibility is to always ensure the safety of HSS colleagues and customers, and the Board remains fully committed to providing a safe environment for all. We also pay close attention to reducing the impact we have on the environment and in the role that we play as a community business across the UK and Ireland.

Refinancing

We announced in February 2018 that we had agreed with our lenders to extend the £80m Revolving Credit Facility (RCF), which will now expire on 6 July 2019. Under the terms of the agreement, if the Group has not completed a refinancing by 30 September 2018, the facility will expire at the option of the lenders on 30 April 2019. Management continues to make good progress towards refinancing the Group and expects to complete this during 2018.

We have prepared the accounts on a going concern basis as the Board is confident that the Group will be able to refinance these debt facilities well in advance of their maturity dates.

Dividend
The Board is focused on reducing net debt and, after careful consideration of the performance of the Group during the year, and in line with the clear priorities set out in our Strategic Review, believes it is in the best interests of the shareholders of the Group, to not pay a final dividend in respect of 2017.

Looking ahead
The positive trading momentum in the second half of the financial year has continued into 2018. Underlying revenue grew by 6% in the first quarter of 2018 against prior year with underlying rental revenue growing 3% and our already actioned cost initiatives are delivering benefits as expected. Based on this positive start to the new financial year we expect the LTM Adjusted EBITDA at the end of March to be around £54m with the first quarter Adjusted EBITDA being more than 50% higher than the previous year. This clearly benefits the net leverage ratio of the Group, which has reduced to 4.3x as at the end of Q1 18. Looking forward we expect Net Leverage to reduce to 3.2x following the implementation of the identified strategic actions.

Our focus will be on developing a leaner operation, improving product availability and enhancing customer service, and reducing our debt to manageable levels. We will continue to drive operational efficiency across the Group, improving profitability and returns, and growing a profitable share of the market.

Alan Peterson

Chairman

CEO's Review

Overview of my first year
I was honoured to be asked to lead HSS Hire. It's a business with a strong brand and leading positions in its chosen markets across the UK and Ireland. Having worked in the industry for many years, I have always admired HSS, so when the opportunity arose to lead this fantastic organisation, it was an opportunity not to be missed.

I arrived at a challenging time for the Group, and it was evident that a lot of work needed to be done. In some areas within the business we were experiencing reduced margins, the new distribution network had led to lower rental revenue growth and there was a loss of focus on our Tool Hire business. Repairing each of these areas will take time and we must continue to remain focused on the task in hand, as we implement changes across the Group and our business evolves.

Notwithstanding these challenges, I continue to strongly believe that there remains huge potential at HSS. Over the past few months I have spent a lot of time with different parts of the business, and have been incredibly impressed by the motivation, achievements and commitment of HSS people across our Group.

Our wide ranging strategic review
During the year, we engaged an independent third party to work with the HSS management team to undertake the most extensive strategic review of the business to date. The review was wide ranging in scope and involved the analysis of 20 million contract lines, more than 35,000 customers, 1,600 products and 250 locations. We focused on a number of areas including profitability, the cost of our operations, processes we have in place, and the market opportunity.

My initial perceptions reaffirmed
We presented our findings of the Strategic Review on the 7th December 2017. The review not only highlighted areas of focus, but also reaffirmed my initial perceptions. We have a strong brand having served our customers for 60 years and our NPS score is above market average. Within our chosen markets we are joint number 2 in the UK tool and equipment rental market by revenue, we have good national coverage and we operate primarily in the highly attractive 'repair, maintain and operate' segment of the market. The 2,900 employees across the Group are committed and knowledgeable, and were named winners of the UK customer experience award in 2016. Our business model is innovative and forward thinking, with multichannel digital technology, and a healthy network of branches which allow for high levels of utilisation of our stock across the Group.

Our new strategy
Upon completion of the review, we identified three key strategic priorities; Delever the Group, Repair the Tool Hire business and Strengthen the Group's commercial proposition.

Delever
During 2017 we took a number of cost reduction actions which resulted in us delivering annualised savings of £13m compared to the Q1 FY17 run-rate. This was achieved through working with our suppliers to reduce costs, reducing our central headcount, closing 55 branches and network efficiencies.

The Strategic Review announced in December 2017 outlined initiatives to reduce costs by a further £10m-£14m on an annualised basis, including up to £10m related to changes in the supply chain model. We were therefore pleased to announce in February 2018 that agreement had been finalised to make these changes enabling c.£11m of cost benefit, £1m higher than the amounts originally communicated. The changes are expected to give rise to a net cash outflow of approximately £3m in 2018 followed by net cash savings of approximately £8m annually over the following seven years.

Last but not least, we will drive further efficiencies across the business through eliminating duplication in some areas and simplifying our processes. This should generate savings of between £3m-£4m. Full implementation of each of these cost saving initiatives will take time and is not going to happen overnight, however we have a clear plan in place and are focused on executing these changes in order to reduce the leverage of our business.

Repair

Three key areas to repair the Tool Hire business were identified; customer, product and branch.

Customer

Taking customer first, we have identified several areas where we can work with our customers to look at ways in which we can improve the customer experience that we are able to offer them. We want to improve our utilisation rates and ensure that we are always in a position to fulfil the needs and requirements of each and every one of our customers.

Product

On occasions, highly valuable products have been commodity-priced with certain customers. There has also been inconsistent pricing within product categories and we have seen circumstances where the stock profile does not match the profit opportunity. A lot of work has been done to introduce smart pricing to reflect asset utilisation and service, and we are looking at improving discount effectiveness and rationalising ranges, as well as ensuring that we optimise our fleet size.

Branch

We closed a number of branches over the last year or so, and now feel that our network is of a size which is flexible and that we are comfortable with. It is a network which can be adapted and modified accordingly as we remain ever vigilant to market conditions. However when we look at the branches, there is a variety of differing performance across the business which needs to be resolved. We are therefore looking at a number of areas where we can improve, to ensure that all our branches are contributing as efficiently and effectively as they possibly can.

Strengthen

The third and final strategic priority is to strengthen the Group's commercial proposition. The actions being taken here are around customer segmentation, geographic focus and sales channel development. Taking customer segmentation first, customers have different needs and therefore we have to respond in different ways. We have to ensure that the products we can offer are relevant for those customer segments. For geographic focus, we know the areas where driving initiatives will be much more advantageous for us. Our target areas have been identified, and we have begun working through these and will continue to do so over the medium to long term. Further progress has also been made on developing our sales channels, with investment having been made to improve our digital capabilities. This will help to enhance and improve the proposition and customer experience that we are able to offer.

Our market

The size of our addressable market for tool hire, powered access and power generation hire in the UK is in the region of £1.9bn. The market has grown by 1-2% CAGR since 2013 and is expected to grow at a similar rate over the next three years*. The market is highly fragmented with the vast majority of registered hire companies employing less than 50 staff and serving their local geography often from one, and usually from less than 10 locations. The Group is one of a small number of 'nationals'. We are placed 2nd or 3rd in each of our three primary markets with between 9-14% market share.

The Group has a large and diverse customer base and operates across a diverse set of end-markets. This provides us with some protection against cyclical trends that are evident in some sectors, such as construction. Our main customer groups are in the facilities management, retail operations, commercial fit-out, property, utilities and

waste, infrastructure and energy supply services sectors. We also work with charities, government entities, house builders and construction contractors.

The ERA notes that the 'UK market is relatively concentrated' but this is in contrast to the fragmented and less mature markets of continental Europe. It estimates that the larger rental players with between 50 and 250 employees are 50% of the UK market. In our view there is room for further market consolidation to create scale rental players able to deliver further efficiency benefits for customers, and enhanced returns to shareholders.

* AMA Market Research estimates.

Management team

The executive team in place at HSS is relatively new in terms of tenure, with Paul Quested, Chief Financial Officer, being the longest serving executive having joined the business in August 2016. Notwithstanding this limited time within the executive team, I have been very encouraged since joining the business in June, by the dedication and commitment of the management team, and the strength and depth of the experience which we have across the Group. I am very confident that with their support, we will be successful in delivering on our strategic priorities set out in December.

2018 and beyond

The strategic review has been a massive step forward for us and gives us a real understanding of our business. We have a clear map forward, with steps identified to deliver significant change in performance within HSS. The strategy has been reset, with three levers; Delever the Group, Repair the Tool Hire business and Strengthen the Group's commercial proposition. Our immediate focus in 2018 is to undertake a number of cost reduction actions which will create a leaner operation, but we have to get the balance right and get this business working effectively and efficiently. We must get the branch optimisation right, lifting levels of profitability not only across the network, but also more widely across the entire business.

Over the next few years, we will be examining our customer segmentation; deploying and working with our teams in areas where we see the most profitable opportunities is key. We will also continue to develop our sales channels, maximising our digital competitive advantage to increase the use and mix of innovative low-cost channels.

Steve Ashmore

Chief Executive Officer

Financial Review

Overview

The first half of 2017 was heavily impacted by changes to the operating model in the prior financial year, with a higher cost base and reduced availability during these changes, adversely impacting rental revenue. This led to an Adjusted EBITA loss of £7.3m in the first half of the year.

Decisive management action taken has delivered like for like rental revenue growth of 1.1% in H2 17, and reduced annualised costs by £13m against the Q1 17 run rate. This led to Adjusted EBITA profit of £9.1m in H2 17.

We also completed our Strategic Review with the clear actions to Delever the Group, Repair the Tool Hire Business and Strengthen the Group's Commercial Proposition. I am confident that these are the right steps to build on the momentum of H2 17 performance and deliver sustainable and improved profitability.

Revenue

Group revenue declined by 1.9% to £335.8m (FY16: £342.4m) behind the anticipated UK tool and equipment hire market growth rate for 2017 as estimated by the ERA. The main drivers of this result were:

- FY17 was a normal 52 week year whilst FY16 was a 53 week period.
- Another year of strong growth in our Service revenues, up 10.6% year on year to £88.0m, mainly driven by performance on our rehire business, HSS OneCall augmented with further growth from our HSS Training business, and;

- A reduction of 5.7% in Rental and related revenues, to £247.8m which were negatively impacted by the establishment of the new operating model during the second half of FY16 and the first half of FY17. Rental and related revenues were further impacted by the decision to close a total of 73 branches since Q3 of FY16. Our performance on rental and related revenues improved in the second half of FY17.

Revenue and revenue growth are two of our KPIs as, combined with estimates of market size and growth rates, it provides us with a measure of our evolving market share. We underperformed the UK tool and equipment hire market during the year for the reasons set out.

Segmental performance

Rental (and related revenues)
Our Rental revenues were down 5.7% year on year at £247.8m (FY16: £262.8m) and accounted for 73.8% of Group revenue (FY16: 76.8%). Performance in the first half of the year, particularly amongst our small and medium customers in England and Wales, was affected by the implementation of our new operating model, including the set-up of the NDEC, which caused disruption to availability. This did not affect the second half of the year.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs of £158.1m (FY16: £179.4m) was 11.9% lower year on year reflecting both a change in revenue mix, and a growth in operating cost coming from the new operating model which had been designed for a larger sized branch network.

LTM core utilisation remained level at 50% (2016: 50%) and LTM specialist brand utilisation was lower at 73% (2016: 75%). These are both KPIs. As a consequence of management action taken, our utilisation rates have improved through the second half of 2017, being ahead of the same period in 2016 at 53% for core equipment and 75% for specialist brands. .

Services
Services revenues increased 10.6% to £88.0m (FY16: £79.6m) and accounted for 26.2% (FY16: 23.2%) of Group revenues. This was principally due to strong growth in HSS OneCall and the continued development of HSS Training. Our Services revenues benefited from existing and new Key Account contracts where our one- stop-shop offering has provided clear market differentiation.

Contribution from Services grew 15.1% to £11.9m (FY16: £10.3m), slightly ahead of the revenue growth rate, reflecting further margin improvement achieved using the existing teams and infrastructure to support increased levels of activity.

Costs
Our cost analysis set out below is on a reported basis and therefore includes exceptional investment associated with our operating model change. Year on year variances driven by such costs are identified in the commentary.

Our cost of sales increased by £9.1m (6.2%) during the year to £154.3m, mainly reflecting the growth in our Services revenues (principally HSS OneCall and HSS Training) and the associated third-party supply costs incurred to support this activity. This also included £0.2m of exceptional costs compared to £3.4m in 2016. The high level of exceptional costs in 2016 related to changes in our operating model and the identification as part of that process of some aged resale stock that required impairment. A change in depreciation rates on one class of product during the year has led to an increase in depreciation charge of £0.8m. Changes to depreciation rates made during FY 16 led to a decreased charge of £4.2m during that year.

Our distribution costs increased by £1.0m (2.3%) from £45.1m to £46.1m. Within this exceptional costs were £0.1m compared to £1.3m in FY16. The higher exceptional costs in FY16 relate largely to the dual running costs as the Group migrated its activities to the NDEC whilst running its existing network in parallel.

Our administrative expenses grew £51.7m (33.1%) to £207.7m (FY16: £156.0m). Exceptional costs accounted for a £53.8m increase year on year. The current year exceptional items include £40.7m network reconfiguration costs relating to the agreement with Unipart to terminate the NDEC contract. Additionally to this the cost of onerous leases increased by £2.4m to £6.9m reflecting an increased number of branch closures year on year. The onerous lease provisions represent the discounted value of future rent payments on properties we are not trading from until

lease expiry. There was an impairment of property, plant & machinery in closed branches of £8.3m. Looking forwards the Group incurred £3.7m of costs relating to delivering a cost reduction programme, £1.0m on senior management changes, £1.2m conducting its Strategic Review and £0.7m on preparatory refinancing expenses. Administrative expenses also include the £4.9m loss on disposal of the Reintec and Tecserv cleaning equipment and maintenance businesses which were sold in November 2017.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2017 was £48.9m, 28.8% lower than in FY16 (£68.6m) driven by the decline in Rental and related revenue and the increased costs associated with the NDEC. Whilst this was offset by Services revenue growth, this was at a lower margin.

As a result, the Group's Adjusted EBITDA margin for FY17 was 14.6% (FY16: 20.0%). Adjusted EBITDA and margin are included in our KPIs.

Our Adjusted EBITA declined to £1.8m (FY16: £20.5m). The significant reduction was driven by the higher costs of our operating network and our performance on rental and related revenue during the first half of the year. The business made an Adjusted EBITA loss in the first half of the year but returned to Adjusted EBITA profit in the second half.

This combined with a growth in lower margin Services revenue led to a reduction in EBITA margin to 0.5% (FY16: 6.0%) Adjusted EBITA and margin are included in our KPIs.

Other operating income

Other operating income reflects the income received from the subletting of non-trading stores. This decreased by £0.3m year on year as the portfolio of non-trading stores fully or partially sublet reduced. We continually assess our portfolio to identify revenue opportunities or to pursue attractive lease surrender opportunities as and when they arise.

Operating loss

Our operating loss increased from £2.7m in 2016 to £71.9m in 2017, driven by lower revenue and increased operating costs including £66.6m of exceptional costs.

The £49.6m growth in exceptional costs, to £66.6m (FY16: £17.0m), and the reduction in Adjusted EBITDA from £68.6m to £48.9m driven by lower rental revenue and the increased network costs accounts for the majority of this decline.

Exceptional items

We have incurred significant one off expenditure in a number of areas of the business as we seek to make cost reductions in order to take the business forwards in the coming years. These totalled £66.6m. The majority of these exceptional items had no cash flow impact during 2017.

Branch closures led to onerous lease provisions of £6.9m (FY16 £4.5m). The cost included adjustments to expected future sub-let income from these closed properties and other properties that the group has closed in previous years. Sub-let income from vacant properties declined from £1.2m to £0.9m.

Impairments of £8.3m were recorded in respect of closed branches (FY16: Nil).

In the first half of the year the Group started a cost reduction programme alongside the branch closures. This included making refinements to how the network operated and reductions in headcount. The total cost was £3.7m and this included a property impairment of £1.2m as head office functions were centralised in Manchester. Total average headcount across the group reduced from 3,254 to 3,006

Following the appointment of Steve Ashmore in June 2017 we announced in August 2017 that we would be undertaking a Strategic Review and we engaged an independent third party to assist. We believe that this was the most extensive review and analysis of the business ever conducted. The costs of this were £1.2m. We announced the outcome of this review in December 2017.

When we announced the outcome of our Strategic Review we identified significant cost savings that would be made. Principal to this was to save between £7m and £10m on an annualised basis from making changes to our supply chain model. In December 2017 heads of terms were agreed with Unipart to make significant changes to how we managed our centralised engineering at the NDEC. We will bring the Test and Run activity for high volume products back into our branch network with repair and maintenance consolidated into regional distribution centres. Unipart will remain responsible for our spare parts warehousing and will provide cross-docking space to enable us to rebalance our fleet across the network. A formal agreement with Unipart was announced in February 2018 and an exceptional cost of £40.7m is recorded in the year. This represents an impairment of fixed assets of £1.9m, an intangible asset impairment of £1.2m, the write off of a security deposit of £4.5m, and the provision for termination payments and an onerous contract of £32.6m. Of the total provision created £9.6m will be payable in 2018 with the balance payable between in broadly equal annual amounts each year to 2026.

In November 2017 we sold our non-core Reintec and Tecserv cleaning equipment hire and maintenance businesses for proceeds net of costs of £1.2m giving rise to a loss on disposal of £4.9m.

Finance costs

Net finance expense (finance expenses less finance income) reduced to £13.7m (FY16: £14.7m). Drawings on our RCF increased during the year whilst our finance lease liability reduced. The reduction was driven by the financial period being one week shorter and a reduction in the interest unwind on discounted provisions.

Taxation

The Group generated a net tax credit of £5.2m compared to a credit of £0.1m in 2016. The Group made an overall loss for tax purposes in the UK, and the charge represents current tax suffered in Ireland offset by a £4.9m deferred tax credit arising from the offset of tax losses against the previously recognised deferred tax liability on intangible assets.

Reported and adjusted earnings per share

Our basic and diluted reported loss per share increased to 46.96p (FY16: loss of 11.18p). This was due to the larger loss generated in the year, partially offset by an increase in the weighted average number of shares from 154.8m to 170.3m shares as a result of the share placing completed in December 2016.

Our basic adjusted earnings per share, being profit before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, moved from 2.98p FY16 to a loss of 5.68p in FY17. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share, but with the weighted average number of shares increased to reflect LTIP and Sharesave options was also a loss of 5.68p (FY16: 2.94p). These reflect the significant reduction in Adjusted EBITA in FY17 compared to FY16, which was driven by our performance in the first half of the year. Adjusted EPS (diluted) is one of our KPIs and is also used to assess Executive Director remuneration.

Capital expenditure

Fixed asset additions in the year were £34.5m, a £7.8m or 18.6% decline year on year. Within this £25.7m was spent on hire fleet (2016: £27.3m) reflecting another managed reduction of spend in these areas after two years of significant expenditure and including the capital efficiency benefit of centralising engineering activity into fewer locations. The remaining £8.7m was spent on non-hire additions (land, buildings, plant and machinery) (2016: £15.1m). The changes to the Group's operating model centred on the NDEC were designed to support enhanced capital and operational efficiency across the Group. We do not anticipate a material increase in our 2018 capital expenditure requirements due to efficiency gains through our fast moving products being tested in branches and more targeted investment using insight from the Strategic Review. Fleet investment is one of our KPIs.

Return on Capital Employed (ROCE)

Our ROCE for FY17 was 0.9% compared with 9.7% for FY16. ROCE is calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Adjusted EBITA dropped by more than 90% during the year whilst the average capital employed by the Group decreased by 4.0% from the level calculated at the end of 2016, reflecting depreciation and asset disposals being higher than capital expenditure. This is one of our KPIs and is also used to assess Executive Director remuneration.

Cash generated from/utilised in operations

Cash generated from operating activities was £10.1m for FY17, a decrease of £16.5m over the prior year (FY16: £26.6m). This reflects the reduction in profits which was offset by a planned reduction in hire fleet asset capital expenditure and an improvement in working capital compared with FY16.

Leverage and net debt

Net debt (stated gross of issue costs) increased by £13.4m to £232.7m (FY16: £219.4m).

As at 30 December 2017 the Group had access to £29.8m of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as net debt divided by Adjusted EBITDA, increased from 3.2x in FY16 to 4.8x at the end of FY17. This was primarily due to the lower Adjusted EBITDA generated in FY17. Leverage or Net Debt Ratio is one of our KPIs and is also used to assess Executive Director remuneration.

Use of alternative performance measures to assess and monitor performance

In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures or (APMs) to assess the Group's ongoing performance. The main APMs we use are Adjusted EBITDA, Adjusted EBITA, Adjusted profit before tax, Adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, all of which are included in our key performance indicators.

We believe that Adjusted EBITDA, a widely used and reported metric amongst listed and private companies, presents a 'cleaner' view of the Group's operating profitability in each year by excluding exceptional costs associated with non-recurring projects or events, finance costs, tax charges and non-cash accounting elements such as depreciation and amortisation.

Additionally analysts and investors assess our operating profitability using the Adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital intensive nature of the sector in which we operate. This metric is used to calculate any annual bonuses payable to Executive Directors.

Analysts and investors also assess our earnings per share using an Adjusted earnings per share measure, calculated by dividing an adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group. The Adjusted profit before tax figure comprises the reported loss before tax of the business with amortisation and exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (currently 19%) to give an adjusted profit after tax. Adjusted earnings per share is used as a performance metric for the vesting of 2016 LTIP and 2017 market value option awards.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit/(loss) and Adjusted profit before tax to loss before tax is provided on the face of the Group's income statement.. A reconciliation of reported loss per share to Adjusted earnings per share is provided in note 6 of the accounts.

In accordance with broader market practice we comment on the amount of net debt in the business by reference to leverage (or Net Debt Ratio), which is the multiple of our Adjusted EBITDA that the net debt represents. This metric is also used in the calculation of any annual bonuses payable to Executive Directors.

We use ROCE to assess the return (the Adjusted EBITA) that we generate on the average tangible fixed assets and average working capital employed in each year. We exclude all elements of net debt from this calculation. This metric is also used as a performance metric for the vesting of 2016 LTIP awards.

Paul Quested
Chief Financial Officer

Principal Risks and Uncertainties

Managing risk

The Board sets the strategic priorities for the Group, the KPIs and performance monitoring relating to these priorities, and establishes the risk appetite.

Overall responsibility for the Group's risk management lies with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who have ownership of risk in reporting to the Board of Directors.

The Group then manages its risk through a group risk register which is maintained by the Risk and Assurance Director. This is subject to quarterly review by both the Executive Management Team and Audit Committee, where changes to the risk landscape, risk ratings and assurance activity are discussed and necessary action and changes agreed.

A risk-based internal audit programme is in place to ensure assurance activity is targeted at key risk areas, as identified below. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review. In addition the Risk and Assurance Director reports to the Executive Board and the senior management team on a monthly basis to review the findings of risk-based assurance activity and investigation, provided by the Internal Audit and Health, Safety, Environment and Quality (HSEQ) teams.

Principal risks and strategy

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, based on its three strategic priorities:

- Delever the Group
- Repair the Tool Hire Business
- Strengthen the Group's Commercial proposition

These risks, how they have changed and how they are mitigated are shown in the table opposite.

2017 risk management developments

Through 2017 the group has continued to improve its approach to the management of risk which is now a quarterly agenda item for the Executive Management Team to review.

- The Risk and Assurance Director held one-to one sessions with the Executive Management Team and Senior Management to improve risk management culture in the group.
- Improvements in the monitoring of risk and identification of risk trends by enhancing the measurable indicators on the key risks.
- Increased training to improve the ownership of risk at Executive Management level. This was noted in last year's annual report

2018 planned improvements to risk management process

In 2018 the Internal Audit team are working with individual departments to document risks and opportunities relating to their role in the corporate strategy.

- A dedicated project management office has been set up to oversee strategy work streams, monitoring performance against plan and tracking and mitigating risks.
- Assurance work will be revised in line with the new operating model, focussing on profitability, key controls and areas of risk.
- Increased cross working of assurance teams to support the strategy and to ensure we are focussed on quality, environment and health and safety.

Key risks	Description and impact	Mitigation	Risk change
Macroeconomic conditions	An economic downturn in the UK and Ireland may adversely affect the Group's revenue and operating results by decreasing the demand for its services and the prices it may charge. The Brexit referendum result has caused economic uncertainty with potential short-term and long-term effects on demand for services within the Group's industry and broad customer base.	The Group focuses on the 'fit-out, maintain and operate' markets, which are less cyclical, less discretionary and have a larger proportion of recurring spend than the new-build construction sector. While the Group is not isolated from the construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail,	**Unchanged**

		commercial fit-out, property, utilities and waste, infrastructure and energy services markets.	
Competitor challenge	The Group's industry is highly competitive, and competition may increase. The equipment rental industry is highly fragmented, with competitors ranging from national equipment rental companies to smaller multi-regional companies and small, independent businesses operating in a limited number of locations. Competition in the market has led to frequent excess capacity and resultant pricing pressure.	The Group is ranked 2nd or 3rd in each of our three primary markets and the resulting economies of scale enable it to be highly competitive, whilst the fragmented nature of the market may offer consolidation opportunities. The Group's national presence, effective distribution service model and well maintained fleet, provides improved customer availability	**Unchanged**
Distribution Network	The provision of the Group's expected service levels depends on its ability to transport its hire fleet across its network in a timely and cost-effective manner, and on the successful operation of its Customer Distribution Centres "CDCs" and Branch Network.	The Group has a flexible distribution model incorporating CDCs which support the branch network. Performance is monitored continually to identify areas where we can improve the cost and the efficiency of the network.	**Unchanged**
IT infrastructure	The Group requires an IT system that is appropriately resourced to support the business, Any IT system malfunction may affect the ability to manage its operations and distribute its hire fleet and service to customers, affecting revenue and reputation. A cyber security attack on the business systems could lead to a potential loss of confidential information and disrupt the business' transactions with customers and suppliers.	The current IT system has been fully reviewed to ensure that it is the best possible option to optimise the success of the Group's strategy. Disaster recovery tests are carried out on a regular basis. Firewalls are in place to protect against malicious attempts to penetrate the IT environment. Penetration testing is carried out on a regular basis to detect weaknesses in our IT and cyber security. Software has been implemented to identify any malicious attack.	**Unchanged**
Insufficient Liquidity Headroom	Some of the Group's customers may have liquidity issues and ultimately may not be able to fulfil the terms of their rental agreements with the Group. Bad debts and credit losses can also arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments could be made, leading to financial loss or delays in payment which could adversely affect the relationship with suppliers and lead to a disruption in supply. Continuing losses of the Group or delays in the implementation of cost savings may lead to a lack of liquidity.	The Group is focused on working capital management and KPIs are reviewed regularly. The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud. Payments and amendments should only be made in line with a regularly reviewed authorisation matrix. The management is working with appointed debt advisors, to ensure that the future capital structure, as part of the refinancing process, provides sufficient liquidity for the Group.	**Increased in 2017 due to higher outstanding debtor days following the relocation of the credit control function from London to Manchester and, looking forward to 2018, an element of the cash costs associated with the network change arising before the benefits fully accrue.**

Equipment supply, maintenance & availability	The reliable supply of safe and good-quality equipment is critical for delivering our customer promise; unavailable or unreliable equipment can reduce potential revenue and drive additional costs into the business. The Group is dependent upon its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply could affect its ability to provide its customers with expected service levels, increasing the risk of lost customers or reduced trading levels. The changes in the way we operate can impact the availability of supply during implementation.	The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. Refining the Group's operating model during the year, and establishing the right balance of centralised and decentralised responsibilities. The 2018 operational plan is based on improving the availability of equipment and the efficiency of our operating model to drive profitability.	**Unchanged**
Customer retention and brand reputation	A decline in the Group's customer service levels could result in a loss of customers and market share. The Group's business depends on strong brands and any failure to maintain, protect and enhance its brands could have an adverse effect on its ability to grow the business.	The Group is looking to improve regional interaction in areas such as customer care in 2018. The Group invests in areas such as marketing, community relations and colleague training, aimed at delivering the highest standards of customer service and colleague engagement. The Group actively engages in online advertisements and email communications, and engages on a regular basis in public relations and sponsorship activities to promote its brands and its business.	**Unchanged**
Outsourcing of services	The Group outsources certain activities of its business to third parties. If any third parties become unable or refuse to fulfil their obligations, or violate laws or regulations, there could be a negative impact on the Group's operations or it could lead to adverse publicity and a decline in demand.	Outsourcing of services by the Group is subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements which are closely monitored and enforced. Performance and quality metrics and KPIs are tracked throughout the life of contracts.	**Reduced in 2017 as operating model was refined.**
Inability to attract and retain and train personnel	Turnover of members of the Group's management and colleagues and its ability to attract, train and retain key personnel may affect its ability to efficiently manage its business and execute its strategy.	The Group has established and maintains competitive pay and benefit packages, as well as the right working environment for its colleagues. Training for colleagues is provided within branches of excellence. The Group is reviewing colleague incentives in 2018.	**Unchanged**
Legal and regulatory requirements	Failure to comply with laws or regulation, such as the Companies Act, accounting regulations, health and safety law, Bribery Act or Road Traffic Act, leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance.	Robust governance within the Group, including a strong financial structure, with adequate assurance provision from internal and external audit. Additional assurance and support is provided by a fully skilled HSEQ team and an internal group investigation team.	**Unchanged**

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Note	**Year ended 30 December 2017**	Year ended 31 December 2016
	Note	**£000s**	£000s
Revenue	2	**335,780**	342,410
Cost of sales		**(154,289)**	(145,232)
Gross profit		**181,491**	197,178
Distribution costs		**(46,140)**	(45,091)
Administrative expenses		**(207,652)**	(155,969)
Other operating income		**882**	1,151
Operating loss		**(71,419)**	(2,731)
Adjusted EBITDA[1]	2	**48,944**	68,638
Less: Depreciation [1]		**(47,159)**	(48,175)
Adjusted EBITA[1]		**1,785**	20,463
Less: Exceptional items	3	**(66,567)**	(16,957)
Less: Amortisation[1]	7	**(6,637)**	(6,237)
Operating loss		**(71,419)**	(2,731)
Net finance expense	4	**(13,743)**	(14,686)
Loss before tax		**(85,162)**	(17,417)
Adjusted (loss) / profit before tax		**(11,958)**	5,777
Less: Exceptional items	3	**(66,567)**	(16,957)
Less: Amortisation	7	**(6,637)**	(6,237)
Loss before tax		**(85,162)**	(17,417)
Income tax credit	5	**5,240**	104
Loss for the financial year		**(79,922)**	(17,313)
Loss attributable to:			
Owners of the company		**(79,922)**	(17,313)
Loss per share (pence)			
Basic and diluted loss per share	6	**(46.96)**	(11.18)
Adjusted basic earnings per share[2]	6	**(5.68)**	2.98
Adjusted diluted earnings per share[2]	6	**(5.68)**	2.94

(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.

(2) Adjusted earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Loss for the financial period	**(79,922)**	(17,313)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	104	1,533
Other comprehensive profit for the period, net of tax	**104**	1,533
Total comprehensive loss for the period	**(79,818)**	(15,780)
Attributable to owners of the Company	**(79,818)**	(15,780)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 December 2017**	31 December 2016
		£000s	£000s
ASSETS			
Non-current assets			
Intangible assets	7	**172,509**	178,755
Property, plant and equipment	8	**150,915**	178,473
Deferred tax assets	13	**358**	780
		323,782	358,008
Asset held for resale	19	**1,500**	-
Current assets			
Inventories		**5,519**	7,898
Trade and other receivables	9	**96,503**	103,744
Cash		**2,151**	15,211
		104,173	126,853
Total assets		**429,455**	484,861
LIABILITIES			
Current liabilities			
Trade and other payables	10	**(82,452)**	(89,150)
Borrowings	11	**(69,000)**	(66,000)
Provisions	12	**(16,684)**	(6,431)
Current tax liabilities		**(90)**	(501)
		(168,226)	(162,082)
Non-current liabilities			
Trade and other payables	10	**(14,105)**	(17,266)

Borrowings	11	**(134,242)**	(133,212)
Provisions	11	**(36,510)**	(10,712)
Deferred tax liabilities	13	**(2,800)**	(8,203)
		(187,657)	(169,393)
Total liabilities		**(355,883)**	(331,475)
Net assets		**73,572**	153,386
EQUITY			
Share capital		**1,702**	1,702
Merger reserve		**97,780**	97,780
Foreign exchange translation reserve		**425**	321
Retained (deficit)/earnings		**(26,335)**	53,583
Total equity attributable to owners of the group		**73,572**	153,386

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000s	**Merger reserve £000s**	**Foreign exchange translation reserve £000s**	**Retained earnings £000s**	**Total equity £000s**
At 1 January 2017	1,702	97,780	321	53,583	153,386
Total comprehensive loss for the period					
Loss for the period	-	-	-	(79,922)	(79,922)
Foreign currency translation differences arising on consolidation of foreign operations	-	-	104	-	104
Total comprehensive loss for the period	-	-	104	(79,922)	(79,818)
Transactions with owners recorded directly in equity					
Share based payment charge	-	-	-	4	4
At 30 December 2017	**1,702**	**97,780**	**425**	**(26,335)**	**73,572**

	Share capital £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Retained earnings £000s	Total equity £000s
At 26 December 2015	1,548	85,376	(1,212)	72,557	158,269
Total comprehensive loss for the period					
Loss for the period	-	-	-	(17,313)	(17,313)
Foreign currency translation differences arising on consolidation of foreign operations	-	-	1,533	-	1,533
Total comprehensive loss for the period	-	-	1,533	(17,313)	(15,780)
Transactions with owners recorded directly in equity					
New share issue for cash	154	12,800	-	-	12,954
Share issue costs	-	(396)	-	-	(396)

Share based payment charge	-	-	-	103	103
Dividends paid	-	-	-	(1,764)	(1,764)
At 31 December 2016	1,702	97,780	321	53,583	153,386

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Cash flows from operating activities		
Loss before income tax	**(85,162)**	(17,417)
Adjustments for:		
– Amortisation	**6,637**	6,237
– Depreciation	**37,006**	37,729
– Accelerated depreciation relating to hire stock customer losses, hire stock write offs	**10,065**	9,762
– Impairment of property, plant and equipment	**11,230**	-
– Impairment of intangible assets	**1,239**	-
– Loss on disposal of property, plant and equipment	**88**	684
– Loss on disposal of intangible assets	**3**	-
– Loss on disposal of subsidiary	**4,919**	-
– Share based payment charge	**4**	103
– Finance income	**-**	(3)
– Finance expense	**13,743**	14,689
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):		
– Inventories	**804**	1,197
– Trade and other receivables	**6,560**	(5,717)
– Trade and other payables	**(5,764)**	2,571
– Provisions	**31,504**	(1,187)
Net cash flows from operating activities before changes in hire equipment	**32,876**	48,648
Purchase of hire equipment	**(22,787)**	(22,085)
Cash generated from operating activities	**10,089**	26,563
Net interest paid	**(12,494)**	(12,974)
Income tax paid	**(59)**	(373)
Net cash generated from operating activities	**(2,464)**	13,216
Cash flows from investing activities		
Proceeds on disposal of businesses, net of cash disposed of	**1,138**	-
Purchases of non hire property, plant, equipment and software	**(7,260)**	(16,804)
Net cash used in investing activities	**(6,122)**	(16,804)
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital	**-**	12,954
Share issue costs	**-**	(170)
Proceeds from borrowings	**18,000**	31,000
Repayments of borrowings	**(15,000)**	(11,000)
Cash received from refinancing hire stock	**5,030**	-
Capital element of finance lease payments	**(12,504)**	(12,498)

Dividends paid	**-**	(1,764)
Net cash received from financing activities	**(4,474)**	18,522
Net (decrease)/ increase in cash	**(13,060)**	14,934
Cash at the start of the period	**15,211**	277
Cash at the end of the period	**2,151**	15,211

1. Basis of Preparation / Accounting policies

The Group's financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and on a basis consistent with those policies set out in our audited financial statements for the year ended 31 December 2016 (available at www.hsshiregroup.com/ investor-relations/financial-results).

The Group financial statements have been prepared, on a going concern basis, on a consistent basis, under the historical cost convention except for the treatment of certain financial assets and liabilities (including derivative instruments which are measured at fair value through the profit or loss). The financial statements were approved by the Board on 5 April 2018.

The financial information for the year ended 30 December 2017 and the year ended 31 December 2016 does not constitute the company's statutory accounts for those years. Statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors' reports on the accounts for 30 December 2017 and 31 December 2016 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The Annual Report and Accounts for the year ended 30 December 2017 will be posted to shareholders on or about 9 May 2018.

The directors have also considered the adequacy of the Group's debt facilities with specific regard to the following factors:

- there is no requirement to redeem any of the senior secured notes until 1 August 2019.
- The borrowings under the revolving credit facility are not due for repayment until 6 July 2019, unless the Group has not refinanced the senior secured notes by 30 September 2018 when the revolving credit facility may become, at the option of the lenders, repayable on 30 April 2019.
- the terms and financial covenants relating to the revolving credit facility secured by the Group.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, and senior debt and interest repayments falling due, show that the Group is expected to be able to operate within the level of its current facilities for the foreseeable future.

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 Financial Statements.

2. Segment 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 known as HSS OneCall and HSS Training. 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 and HSS Training provides customers with specialist safety training across a wide range of products and sectors.

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. The Group has one customer which accounts for more than 10% of Group turnover (2016: Nil).

	Year ended 30 December 2017			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	247,770	88,010	-	335,780
Contribution	158,063	11,877	-	169,940
Branch and selling costs	-	-	(82,422)	(82,422)
Central costs	-	-	(38,574)	(38,574)
Adjusted EBITDA				48,944
Less: Exceptional items	-	-	(66,567)	(66,567)
Less: Depreciation and amortisation	(41,842)	(311)	(11,643)	(53,796)
Operating loss				(71,419)
Net finance expenses				(13,743)
Loss before tax				(85,162)

	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	25,763	24	8,726	34,513
Intangibles	-	200	2,657	2,857
Non-current assets net book value				
Property, plant and equipment	118,643	224	32,048	150,915
Intangibles	165,960	290	6,259	172,509
Unallocated corporate assets				
Asset held for resale	-	-	1,500	1,500
Non-current deferred tax assets			358	358
Current assets			104,173	104,173
Current liabilities			(168,226)	(168,226)
Non-current liabilities			(187,657)	(187,657)
				73,572

	Year ended 31 December 2016			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	262,817	79,593	-	342,410
Contribution	179,429	10,317	-	189,746
Branch and selling costs	-	-	(89,294)	(89,294)
Central costs	-	-	(31,814)	(31,814)
Adjusted EBITDA				68,638
Less: Exceptional items	-	-	(16,957)	(16,957)
Less: Depreciation and amortisation	(40,572)	(267)	(13,573)	(54,412)
Operating loss				(2,731)
Net finance expenses				(14,686)
Loss before tax				(17,417)

	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	27,337	115	14,945	42,397
Intangibles	-	149	4,590	4,739
Non-current assets net book value				
Property, plant and equipment	133,922	387	44,164	178,473
Intangibles	169,748	542	8,465	178,755
Unallocated corporate assets				
Asset held for resale			-	-
Non-current deferred tax assets			780	780
Current assets			126,853	126,853
Current liabilities			(162,082)	(162,082)
Non-current liabilities			(169,393)	(169,393)
				153,386

3. 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.

During the year ended 30 December 2017 the Group has incurred a number of exceptional items.

In the first half of the year the Group identified the need to reduce its cost base. A cost reduction programme identified annualised savings of £13 million, based on the Q1 2017 run-rate, to be achieved through a number of

initiatives including closing branches, making efficiencies in the network and reducing headcount. This led to redundancy costs and provisions being made for onerous leases and the impairment of property plant and equipment.

Following the appointment of the new CEO the Group carried out a strategic review. In December 2017 it was announced that this had identified further annualised savings of between £10 million and £14 million to be achieved through a network reconfiguration and further headcount savings. This led to the recognition of an onerous contract, asset impairments and redundancy costs.

Additionally to this the Group sold a business which was not considered core to its new strategy and incurred costs relating to reviewing the available options ahead of the planned refinancing of the Group's borrowings during 2018.

As a result, during the period ended 30 December 2017, the Group has recognised total exceptional items of £66.6 million analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	Year ended 30 December 2017
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Onerous leases	-	-	6,903	-	6,903
Impairment of property, plant and equipment	-	-	8,279	-	8,279
Business divesture	-	-	4,919	-	4,919
Cost reduction programme	176	131	3,432	-	3,739
Senior management changes	-	-	1,031	-	1,031
Strategic review	-	-	1,172	-	1,172
Network reconfiguration	-	-	40,692	-	40,692
Preparatory refinancing cost	-	-	714	-	714
Sub-let rental income on onerous leases	-	-	-	(882)	(882)
Exceptional items	**176**	**131**	**67,142**	**(882)**	**66,567**

During the year ended 31 December 2016, the Group recognised total exceptional costs of £17.0 million, analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	Year ended 31 December 2016
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
NDEC exceptional costs					
Project management, design, set-up	508	-	2,560	-	3,068
Parallel running	1,036	1,128	4,130	-	6,294
Non-recurring transitional engineering costs	125	-	226	-	351
Branch and CDC closure redundancies	162	163	116	-	441
Total NDEC exceptional costs	1,831	1,291	7,032	-	10,154
Onerous leases	-	-	4,492	-	4,492
Group restructuring	15	5	1,622	-	1,642
Resale stock impairment	1,552	-	-	-	1,552
Pre-opening costs	-	8	172	-	180
Cost reduction programme	-	-	-	-	-
IPO fees	-	-	74	-	74

Acquisitions	-	-	-	-	-
Sub-let rental income on onerous leases	-	-	-	(1,137)	(1,137)
Exceptional items	3,398	1,304	13,392	(1,137)	16,957

An analysis of the amount presented as exceptional items in the consolidated income statement is given below.

Onerous leases: branch and distribution centre closure

The number of branches has been reduced to remove less profitable locations with activity centralised into fewer locations. 55 branches were closed during the year (2016: 30). An exceptional cost of £6.9 million relating to onerous leases and dilapidations costs has been recorded in the year ended 30 December 2017 (2016: £4.5 million). Sub-let rental income on onerous leases for the year amounted to £0.9 million (2016 £1.1 million).

Impairment of closed branch 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 year ended 30 December 2017 an impairment of £8.3 million has been recorded (2016: £nil).

Cost reduction programme

The Group announced plans in the first half of the financial year 2017 to deliver significant cost reductions primarily by reducing head office headcount by redundancy and restructuring costs at the NDEC to drive operational efficiencies in the supply chain. Included in these costs is an asset impairment relating to the closure of the former head office in Mitcham and associated relocation costs of transferring transactional activity to the new head office in Manchester. During the year ended 30 December 2017 costs of £3.7 million are included as exceptional items relating to the cost reduction programme, (2016: £nil).

Senior management changes

During the first half of the year a number of senior management changes happened including the recruitment of a new Chief Executive Officer. Termination costs, legal fees and recruitment costs totalled £1.0 million. (2016: £nil)

Strategic review

Following the appointment of the new Chief Executive Officer, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £1.2 million were incurred for the period ended 30 December 2017 to support this review (2016: £nil).

Network reconfiguration

The Strategic Review identified operational efficiencies that could be achieved through reconfiguring the Group's supply chain model. Potential annual savings of between £7 million and £10 million were identified by moving the testing and repair of all fast-moving products closer to HSS's customers, using the Group's existing network of distribution centres and branches. In addition to the cost savings, these changes are expected to improve asset utilisation and availability of product.

To realise these benefits, agreement was reached with Unipart who operated the Group's National Distribution and Engineering Centre (NDEC) to terminate the remaining 8 year term of the contract. In terminating this contract the Group will make cash payments of £33.8 million over the period 2018 to 2026 as compensation to Unipart. In aggregate a discounted provision of £32.6 million has been made for these payments. Included in the above are one off cash payments of £6.5 million which will be made in 2018 to cover the immediate restructuring costs associated with the change, including redundancy, site decommissioning and exit costs from operating leases.

The Group has impaired fixed assets of £1.9 million and software intangibles of £1.2 million relating to the operation of the NDEC. The Group has also impaired a security deposit of £4.5 million paid to Unipart prior to the opening of the NDEC as this will not be repaid.

The total provision for network reconfiguration, including £0.5 million of legal costs, recorded within exceptional items amounts to £40.7 million (2016: £nil).

Business divesture

The Group sold businesses not considered core to the strategy. The Reintec branded fleet of cleaning machines and the associated Tecserv equipment maintenance business were sold on 16 November 2017 for a consideration of £1.5 million. After transaction costs net proceeds were £1.2 million. This gave rise to a loss of £4.9 million including goodwill written off of £0.8 million. Further details on the disposal can be found in note 15.

Preparatory refinancing costs

Included with exceptional items for the period ended 30 December 2017 is an exceptional cost of £0.7 million in respect of preparatory costs for the refinancing of the Senior Secured Notes and the Revolving Credit Facility which are due for repayment in 2019. The Group expects to complete this refinancing in 2018.

Group restructuring costs

In parallel with the implementation of the NDEC the Group changed its operating model during 2016 to a new Divisional structure. This resulted in a reduction in headcount leading to a redundancy cost of £1.6 million for the year ended 31 December 2016 which was included within administrative expenses.

Resale stock impairment

As part of the NDEC set up and branch and distribution centre closures, inventory held for sale was centralised into fewer locations leading to an inventory impairment of £1.6 million which was included within cost of sales in the year ended 31 December 2016.

Pre-opening costs

Included in exceptional items for the year ended 31 December 2016 were £0.2 million of costs relating to new branch openings and relocations. These amounts have been included within administrative expenses.

IPO fees

Included in exceptional items for the year ended 31 December 2016 were £0.1 million off fees relating to the IPO in February 2015 and related to professional adviser and broker fees, which were included within administrative expenses.

NDEC establishment

During the year ended 31 December 2016, the Group incurred exceptional costs of £10.2 million establishing operations at the National Distribution and Engineering Centre ("NDEC").The NDEC was a centralised engineering and replenishment centre set-up to serve our branch and distribution network replacing the former hub and spoke model deployed by the Group.

A dedicated project team oversaw these changes. Associated costs incurred amounted to £3.1 million.

As branches and distribution centres rolled into the NDEC, there was a period of increased costs due to the operation of both the new and old models in parallel. The Group determined that a reasonable approximation of these parallel running inefficiencies to be the total costs incurred in operating the NDEC up to the point where 50% of operational volumes were processed through the NDEC rather than the original branch and distribution network. Accordingly all related NDEC costs until October 2016 were treated as exceptional costs, which amounted to £6.2 million.

4. Finance income and expense

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Interest received on cash deposits	**-**	(3)
Finance income	**-**	(3)
Bank loans and overdrafts	**2,118**	2,039
Senior secured notes	**9,155**	9,331
Finance leases	**1,392**	1,792
Interest unwind on discounted provisions	**31**	484
Debt issue costs	**1,047**	1,043
Finance expense	**13,743**	14,689
Net finance expense	**13,743**	14,686

5. Income tax credit

(a) Analysis of expense/ (credit) in the year

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Current tax charge		

UK corporation tax on the loss for the year	**486**	389
Adjustments in respect of prior years	**(788)**	26
Total current tax (credit)/ charge	**(302)**	415
Deferred tax credit		
Deferred tax (credit)/charge for the year	**(4,889)**	443
Deferred tax charge impact of change in tax rate	**-**	(961)
Adjustments in respect of prior years	**(49)**	(1)
Total deferred tax credit	**(4,938)**	(519)
Income tax credit	**(5,240)**	(104)

(b) Factors affecting the income tax expense/ (credit) in the year

The tax assessed on the loss for the year differs from the standard UK corporation rate of tax. The differences are explained below:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Loss before tax	**(85,162)**	(17,417)
Loss before tax multiplied by the effective standard rate of corporation tax of 19.25% (2016: 20%)	**(16,394)**	(3,483)
Effects of:		
Expenses not deductible for tax purposes	**1,076**	501
Adjustments in respect of prior years	**(838)**	25
Difference in foreign tax rate	**444**	389
Unprovided deferred tax movements on short term temporary differences and capital allowance timing differences	**10,472**	3,425
Impact of change in tax rates	**-**	(961)
Income tax credit	**(5,240)**	(104)

(c) Factors that may affect future tax charge

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. The Group's losses for the year ended 30 December 2017 were taxed at an effective rate of 19.25%

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £18.2 million (2016: £14.8 million) and relating to losses of £6.9 million (2016: £1.4 million).

These potential deferred tax assets have not been recognised on the basis that it is not sufficiently certain when taxable profits that can be utilised to absorb the reversal of the temporary difference will be made in the future.

The corporation tax main rate at is 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. The tax rate for the year starting 1 April 2020 is 17%.

6. Earnings per share

	Year ended 30 December 2017		
	Loss after tax	**Weighted average number of shares**	**Loss per share**

	£000s	000s	pence
Basic and diluted loss per share	**(79,922)**	**170,207**	**(46.96)**
Potentially dilutive securities	-	-	**-**
Diluted earnings per share	**(79,922)**	**170,207**	**(46.96)**

	Year ended 31 December 2016		
	Loss after tax	Weighted average number of shares [1]	Loss per share
	£000s	000s	pence
Basic and diluted loss per share	(17,313)	154,887	(11.18)

(1) The ordinary shares issued on 28 December 2016 had no material impact on the weighted average number of shares for the year ended 31 December 2016.

Basic loss per share is calculated by dividing the result attributable to equity holders by the weighted average number of ordinary shares in issue for that period.

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives outstanding, being nil cost share options (LTIP shares) and Sharesave Scheme share options. All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the year ended 30 December 2017 for the purpose of diluted loss per share. There were no potentially dilutive equity derivative securities outstanding during the year ended 30 December 2017 for the purpose of diluted loss per share.

The following is a reconciliation between the basic loss per share and the Adjusted basic loss per share:

	Year ended 30 December 2017	Year ended 31 December 2016
Basic and diluted loss per share (pence)	**(46.96)**	(11.18)
Add back:		
Exceptional items per share [1]	**39.11**	10.95
Amortisation per share [2]	**3.90**	4.03
Tax per share	**(3.08)**	(0.07)
Charge:		
Tax credit/ (charge) at prevailing rate	**1.35**	(0.75)
Adjusted basic (loss)/ earnings per share (pence)	**(5.68)**	2.98

[1] Exceptional items per share is calculated as total exceptional items divided by the weighted average number of shares in issue through the period.

[2] Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the period.

The following is reconciliation between the basic and diluted loss per share and the adjusted diluted (loss)/ earnings per share:

	Year ended 30 December 2017	Year ended 31 December 2016
Basic and diluted loss per share (pence)	**(46.96)**	(11.18)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities [1]	-	0.12
Exceptional items per share [2]	**39.11**	10.83
Amortisation per share [3]	**3.90**	3.98
Tax per share	**(3.08)**	(0.07)

Charge:

Tax credit/ (charge) at prevailing rate	**1.35**	(0.74)
Adjusted diluted (loss)/ earnings per share (pence)	**(5.68)**	2.94

7. Intangible assets

	Goodwill £000s	**Customer relationships £000s**	**Brands £000s**	**Software £000s**	**Total £000s**
Cost					
At 31 December 2016	129,744	27,482	24,142	19,968	201,336
Foreign exchange differences	2	-	-	-	2
Additions	-	-	-	2,857	2,857
Sale of business	(755)	(738)	(40)	(240)	(1,773)
Disposals	-	-	-	(2,104)	(2,104)
At 30 December 2017	**128,991**	**26,744**	**24,102**	**20,481**	**200,318**
Amortisation					
At 31 December 2016	-	10,940	391	11,250	22,581
Charge for the period	-	2,762	143	3,732	6,637
Impairment loss	-	-	-	1,239	1,239
Sale of business	-	(356)	(8)	(183)	(547)
Disposals	-	-	-	(2,101)	(2,101)
At 30 December 2017	**-**	**13,346**	**526**	**13,937**	**27,809**
Net book value					
At 30 December 2017	**128,991**	**13,398**	**23,576**	**6,544**	**172,509**

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 26 December 2015	130,171	27,044	24,142	14,999	196,356
Foreign exchange differences	11	-	. -	-	11
Additions	-	-	-	4,739	4,739
Transfers	(438)	438	-	230	230
At 31 December 2016	129,744	27,482	24,142	19,968	201,336
Amortisation					
At 26 December 2015	-	8,014	234	7,866	16,114
Charge for the period	-	2,926	157	3,154	6,237
Disposals	-	-	-	230	230
At 31 December 2016	-	10,940	391	11,250	22,581
Net book value					
At 31 December 2016	129,744	16,542	23,751	8,718	178,755
At 26 December 2015	130,171	19,030	23,908	7,133	180,242

All goodwill arising on business combinations has been allocated to the Cash Generating Units (CGUs) that are expected to benefit from those business combinations. The Group tests goodwill and indefinite life brands annually for impairment.

Analysis of goodwill, indefinite life brands, other brands and customer relationships by cash generating units

	Goodwill £000s	**Indefinite life Brands £000s**	**Other Brands £000s**	**Customer Relationships £000s**	**Total £000s**
Allocated to					
HSS Core	111,497	21,900	299	11,793	145,489
Powered access	4,114	-	681	-	4,795
Climate control	7,327	-	462	1,044	8,833
Power generation	6,053	-	234	561	6,848
At 30 December 2017	**128,991**	**21,900**	**1,676**	**13,398**	**165,965**

	Goodwill £000s	Indefinite life Brands £000s	Other Brands £000s	Customer Relationships £000s	Total £000s
Allocated to					
HSS Core	112,250	21,900	352	14,735	149,237
Powered access	4,114	-	725	-	4,839
Climate control	7,327	-	525	1,156	9,008
Power generation	6,053	-	249	651	6,953
At 31 December 2016	129,744	21,900	1,851	16,542	170,037

The remaining life of intangible assets other than goodwill and indefinite life brands is between three to seventeen years.

The Group tests goodwill and indefinite life brands for impairment annually or more frequently if there are indicators that impairment may have occurred. The recoverable amounts of the goodwill and indefinite life brands, which are allocated to cash generating units (CGUs), are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next four years (2016: four years) together with a terminal value using a long term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, forecast revenue, EBITDA, and capital expenditure.

The key variables applied to the value in use calculations were determined as follows:

- Cash flows were derived assuming future Group growth rates in the short to medium term (up to four years) of 2.5% for each of the CGUs (2016: between 6% and 4%). The directors believe that it is appropriate to lower the growth rate assumptions from previous years to reflect the focus of the business on cost reduction. The cash flows calculations are based upon the achievement of the cost savings identified from the network reconfiguration identified in the Strategic Review. The majority of the cost saving initiatives have already been both identified and implemented and the directors are confident of their delivery.

- Cash flows beyond 2021 (ie after four years) have been determined based on a long term growth rate of 2.5% (2016: 2.5%).

- A pre-tax discount rate of 10.0% (2016: 9.1%), calculated by reference to a market based weighted average cost of capital (WACC).

Whilst the delivery of the identified cost savings is critical to the cash flow projections that have been used, additionally, the directors' cash flow projections are based on key assumptions about the performance of the Group, the UK tool hire market and the general UK macro-economic environment. An impairment may be identified if changes to any of these factors were significant, including underperformance of the Group against forecast, negative changes in the UK tool hire market, or a deterioration in the UK economy, which would

cause the directors to reconsider their assumptions and revise their cash flow projections.

Based on this VIU modelling and impairment testing, the directors do not consider the goodwill and indefinite life brands assets carried in the balance sheet at 30 December 2017, for any of the CGUs, to be impaired.

For the CGU groupings listed in the table above in respect of goodwill and brands, excluding HSS Core, the directors' sensitivity analysis does not result in an impairment charge. Given the level of headroom in VIU they show, the directors do not envisage reasonably possible changes to the key assumptions that would be sufficient to cause an impairment at this time.

In respect of HSS Core, at 30 December 2017, the headroom between VIU and carrying value of the related assets was £89.9 million. The directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate by 2.5%, to 12.5%, or a reduction in the long term growth rate to a decline of 2.2%, or a reduction in the short to medium term growth rate to a decline of 3.3% would eliminate the headroom shown. Additionally if planned cost savings from the Strategic Review are £6.2 million less than anticipated on an annual basis the headroom would be eliminated. The short to medium term growth rate reduction equates to a reduction in EBITDA of between £3 million to £6 million annually over the medium term.

8. 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	16	65	620	701
Additions	6,664	2,086	25,763	34,513
Transferred to asset held for resale	(3,806)	-	-	(3,806)
Sale of business	(93)	(463)	(5,504)	(6,060)
Disposals	(197)	(79)	(30,676)	(30,952)
At 30 December 2017	71,771	60,282	237,498	369,551
Accumulated depreciation				
At 31 December 2016	37,095	46,214	113,373	196,682
Foreign exchange differences	1	46	382	429
Charge for the year	4,382	3,669	28,955	37,006
Impairment loss	9,103	2,127	-	11,230
Transferred to asset held for resale	(2,306)	-	-	(2,306)
Sale of business	(33)	(409)	(3,164)	(3,606)
Disposals	(127)	(62)	(20,610)	(20,799)
At 30 December 2017	48,115	51,585	118,936	218,636
Net book value				
At 30 December 2017	**23,656**	**8,697**	**118,562**	**150,915**

	Land & Buildings £000s	Plant & Machinery £000s	Materials & Equipment held for hire £000s	Total £000s
Cost				
At 26 December 2015	63,313	55,914	256,208	375,435
Foreign exchange differences	29	199	2,377	2,605
Additions	10,360	4,700	27,337	42,397
Disposals	(4,515)	(2,140)	(38,627)	(45,282)
At 31 December 2016	69,187	58,673	247,295	375,155

Accumulated depreciation				
At 26 December 2015	35,258	44,016	112,948	192,222
Foreign exchange differences	-	158	1,409	1,567
Charge for the year	6,266	3,582	27,881	37,729
Disposals	(4,429)	(1,542)	(28,865)	(34,836)
At 31 December 2016	37,095	46,214	113,373	196,682
Net book value				
At 31 December 2016	32,092	12,459	133,922	178,473
At 26 December 2015	28,055	11,898	143,260	183,213

9. Trade and other receivables

	30 December 2017	31 December 2016
	£000s	£000s
Gross trade receivables	**85,270**	83,072
Less provision for impairment	**(4,429)**	(3,740)
Net trade receivables	**80,841**	79,332
Other debtors	**271**	679
Prepayments and accrued income	**15,391**	23,733
Total trade and other receivables	**96,503**	103,744

10. Trade and other payables

	30 December 2017	31 December 2016
	£000s	£000s
Current		
Obligations under finance leases	**11,892**	11,448
Trade payables	**39,729**	52,505
Other taxes and social security costs	**5,792**	5,688
Other creditors	**916**	467
Accrued interest on borrowings	**3,904**	3,859
Accruals and deferred income	**20,219**	15,183
	82,452	89,150

	30 December 2017	31 December 2016
	£000s	£000s
Non-current		
Obligations under finance lease	**14,105**	17,266
	14,105	17,266

11. Borrowings

	30 December 2017 £000s	31 December 2016 £000s
Current		
Revolving credit facility	**69,000**	66,000
Bank overdraft	**-**	-
	69,000	66,000
Non-current		
Senior secured note	**134,242**	133,212
	134,242	133,212

The secured senior note is a 6.75% fixed rate bond maturing in August 2019, and is listed on the Luxembourg stock exchange.

The Group's Super Senior RCF is a revolving credit facility expiring in July 2019.

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.

The Group had undrawn committed borrowing facilities of £27.6 million at 30 December 2017 (2016: £27.0 million). Including net cash balances, the Group had access to £29.8 million of combined liquidity from available cash and undrawn committed borrowing facilities at 30 December 2017 (2016: £42.2 million).

12. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous Contracts £000s	Total £000s
At 31 December 2016	5,398	11,745	-	17,143
Additions	6,273	4,582	32,612	43,467
Utilised during the period	(3,960)	(1,885)	-	(5,845)
Unwind of provision	(15)	46	-	31
Released, including disposal on sale of business	(1,089)	(513)	-	(1,602)
At 30 December 2017	**6,607**	**13,975**	**32,612**	**53,194**
Of which:				
Current	**2,763**	**4,310**	**9,611**	**16,684**
Non-current	**3,844**	**9,665**	**23,001**	**36,510**
	6,607	**13,975**	**32,612**	**53,194**
At 26 December 2015	4,537	10,136	-	14,673
Additions	3,349	3,173	-	6,522
Utilised during the period	(2,223)	(1,460)	-	(3,683)
Unwind of provision	332	152	-	484
Released	(597)	(256)	-	(853)
At 31 December 2016	5,398	11,745	-	17,143
Of which:				
Current	2,876	3,555	-	6,431
Non-current	2,522	8,190	-	10,712
	5,398	11,745	-	17,143

Onerous leases

Provisions for onerous leases relate to the current value of contractual liabilities for future rent and rates payments and other unavoidable costs on leasehold properties the Group no longer operationally uses. These liabilities, assessed on a lease by lease basis, are expected to arise over a period of up to 12 years with the weighted average being 3.5 years (2016: 2.8 years). They are stated net of existing and anticipated sublet income based on management's experience of the commercial retail property market in conjunction with specialist third party advice. The onerous lease provision has been discounted at a rate of 0.752% (2016: 0.478%). A 1% increase in the discount rate at 30 December 2017 would reduce the onerous lease provision by £0.1 million.

The amount of anticipated sub-let income for vacant properties included in the onerous lease provision amounted to £0.9 million at 30 December 2017 (2016: £2.3 million). Variations in the actual timings or amounts of sub-let income will lead to a commensurate increase or decrease in the amount of provision required in the future. If the Group failed to dispose of or sub-let any of these vacant properties prior to their lease expiry the provision would increase by £0.9 million at 30 December 2017 (2016: £2.3 million).

Dilapidations
The dilapidations provision represents dilapidation costs in respect of the Group's leasehold properties and will therefore arise over the lease lives of the Group's properties, and comprises specific amounts based on surveyors' reports on a property by property basis, where available. The remaining properties are covered by an estimate based on gross internal area. The weighted average dilapidations provision at 30 December 2017 was £5.10 psf (2016: £3.10 psf). Estimates for future dilapidations costs are regularly reviewed, and the increase in the cost of the provision psf reflects a change in the estimate of future cost based upon experience during the year ended 30 December 2017. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 30 December 2017 of £1.3 million.

The dilapidations provision has been discounted at a rate of 1.19% (2016: 1.45%) at 30 December 2017 based on 10 year UK gilt yields. A 1% increase in the discount rate at 30 December 2017 would decrease the dilapidations provision by £0.6 million and associated dilapidation fixed asset by £0.6 million, respectively.

Onerous contract
The onerous contract represents amounts payable in respect of the agreement reached between the Group and Unipart to terminate the contract to operate the NDEC. The Group will make total cash payments to Unipart of £33.8 million of which £9.6 million is payable in 2018. The obligations under this agreement will unwind over the period to 2026. The provision has been discounted at a rate of 1.19% at 30 December 2017 based on 10 year UK gilt yields. A 1% increase in the discount rate at 30 December 2017 would decrease the provision by £0.9 million.

13. Deferred tax

Deferred tax is provided in full on taxable temporary differences under the liability method using applicable tax rates.

	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 31 December 2016	780	(1,204)	(6,999)	(7,423)
(Charge) / credit to the income statement	(422)	(1,078)	6,438	4,938
Sale of business	-	-	43	43
At 30 December 2017	358	(2,282)	(518)	(2,442)
Deferred tax assets	**358**	**-**	**-**	**358**
Deferred tax liabilities	**-**	**(2,282)**	**(518)**	**(2,800)**
At 30 December 2017	**358**	**(2,282)**	**(518)**	**(2,442)**
At 26 December 2015	1,900	(1,265)	(8,577)	(7,942)
(Charge) / credit to the income statement	(1,120)	61	1,578	519
Arising on acquisition	-	-	-	-
At 31 December 2016	780	(1,204)	(6,999)	(7,423)
Deferred tax assets	780	-	-	780
Deferred tax liabilities	-	(1,204)	(6,999)	(8,203)

At 31 December 2016	780	(1,204)	(6,999)	(7,423)

At 30 December 2017 £2.8 million (2016: £7.6 million) of the deferred tax liability is expected to crystallise after more than one year.

At 30 December 2017 the Group had an unrecognised deferred tax asset relating to trading losses of £6.9 million (2016: £1.4 million). Tax losses generated in the year have been offset against the previously recognised deferred tax liability on intangible assets resulting in a net credit to the income statement of £4.9 million (2016: £nil).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £18.2 million (2016: £14.8 million).

These potential deferred tax assets have not been recognised on the basis that it is not sufficiently certain when taxable profits that can be utilised to absorb the reversal of the temporary difference will occur in the future.

14. Commitments and contingencies

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

	30 December 2017	31 December 2016
	£000s	£000s
Land and buildings		
Within one year	**15,030**	16,140
Between two and five years	**45,316**	48,447
After five years	**33,084**	35,562
	93,430	100,149
Other		
Within one year	**9,074**	9,142
Between two and five years	**15,263**	15,952
After five years	**7**	321
	24,344	25,415
	117,774	125,564

15. Business Disposal

On 16 November 2017 the Group sold its Reintec cleaning asset rental and Tecserv cleaning equipment and servicing businesses for a cash consideration net of costs of £1.2 million. The table below shows the assets and liabilities disposed of:

Descriptions of assets and liabilities	**£000s**
Intangible assets	**472**
Property, plant and equipment	**2,453**
Inventories	**1,575**
Trade and other receivables	**1,042**
Cash	**19**
Trade and other payables	**(131)**
Provisions	**(66)**
Deferred Tax liabilities	**(43)**
	5,321
Proceeds of disposal less transaction costs	**1,157**
Loss on disposal before goodwill written back	**(4,164)**
Goodwill written back	**(755)**
Loss on disposal	**(4,919)**
Proceeds of disposal less costs	**1,157**
Cash disposed of	**(19)**

Net cash inflow	**1,138**

16. Related party transactions

Ultimate parent entity

By virtue of its majority shareholding the Group's immediate and ultimate parent entity is Exponent Private Equity LLP. During the year entities managed by Exponent Private Equity LLP charged the Group fees of £42,725 (2016: £40,000) and £nil was outstanding at 30 December 2017 (2016: £nil). Additionally Exponent Private Equity invest in businesses whom the Group trade with. All transactions are carried out on an arm's length basis and are immaterial to both parties.

17. Dividends

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Interim dividend of Nil (2016: 0.57p) per ordinary share paid during the year	**-**	882
Final dividend of Nil (2016: 0.57p) per ordinary share paid during the year	**-**	882
	-	1,764

The Board continue to be focused on reducing net debt and, after careful consideration of the significant cash investments made during 2016 chose not to pay an interim dividend and in advance of the planned network changes in 2018 the Directors believe it is in the best interests of the shareholders for the Group to not pay a final dividend in respect of 2017. During the year ended 31 December 2016, the shareholders approved a final dividend of 0.57p per ordinary share, totalling £0.9 million in respect of the year ended 26 December 2015 which was subsequently paid on 4 July 2016. Additionally during the year ended 31 December 2016, the Directors paid an interim dividend of £0.9 million in October 2016.

18. Note supporting statement of cash flows

	At 1 January 2017	Cash Flows	Other Non-cash Movements	**At 30 December 2017**
	£000s	£000s	£000s	**£000s**
Cash	15,211	(13,060)	-	**2,151**
Current borrowings	(66,000)	(3,000)	-	**(69,000)**
Non-current borrowings[(1)]	(133,212)	-	(1,030)	**(134,242)**
Finance lease liabilities	(28,714)	12,504	(9,788)	**(25,998)**
Total	**(212,715)**	**(3,556)**	**(10,818)**	**(227,089)**
Accrued interest on borrowings	(3,859)	(12,494)	12,449	**(3,904)**
Debt issue costs [(1)]	(2,788)	-	1,030	**(1,758)**
Net debt [(2)]	**(219,362)**	**(16,050)**	**2,661**	**(232,751)**

[1] Non-current borrowings are stated net of debt issue costs

[2] HSS calculation of Net debt includes accrued interest on borrowings and excludes deduction

for debt issue costs

19. Post balance sheet events

On 11 January 2018 the sale of the former Mitcham Head Office, which closed in September 2017 as part of the cost reduction programme was completed for proceeds of £1.5 million. The property was an asset held for resale at 30 December 2017.

On 13 February 2018 the Group agreed an extension of the maturity date of its £80 million Revolving Credit Facility from 6 February 2019 to 6 July 2019. This resulted in an increase in the margin payable under the facility from 2.50% to 3.00%. There were no changes in covenants. If the Group has not refinanced it's senior security notes by 30 September 2018, the £80 million revolving credit facility will become repayable at the option of the lenders on 30 April 2019.

20. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Operating loss	**(71,419)**	(2,731)
Add: Depreciation of property, plant and equipment	**37,006**	37,729
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**10,153**	10,446
Add: Amortisation	**6,637**	6,237
EBITDA	**(17,623)**	51,681
Add: Exceptional items	**66,567**	16,957
Adjusted EBITDA	**48,944**	68,638

Adjusted EBITA is calculated as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Operating loss	**(71,419)**	(2,731)
Add: Amortisation	**6,637**	6,237
EBITA	**(64,782)**	3,506
Add: Exceptional items	**66,567**	16,957
Adjusted EBITA	**1,785**	20,463